GLOBAL EXPORT FORECAST
SPRING 2014

Ready for White Water?

Canada

EDC

Realize a World of Opportunity

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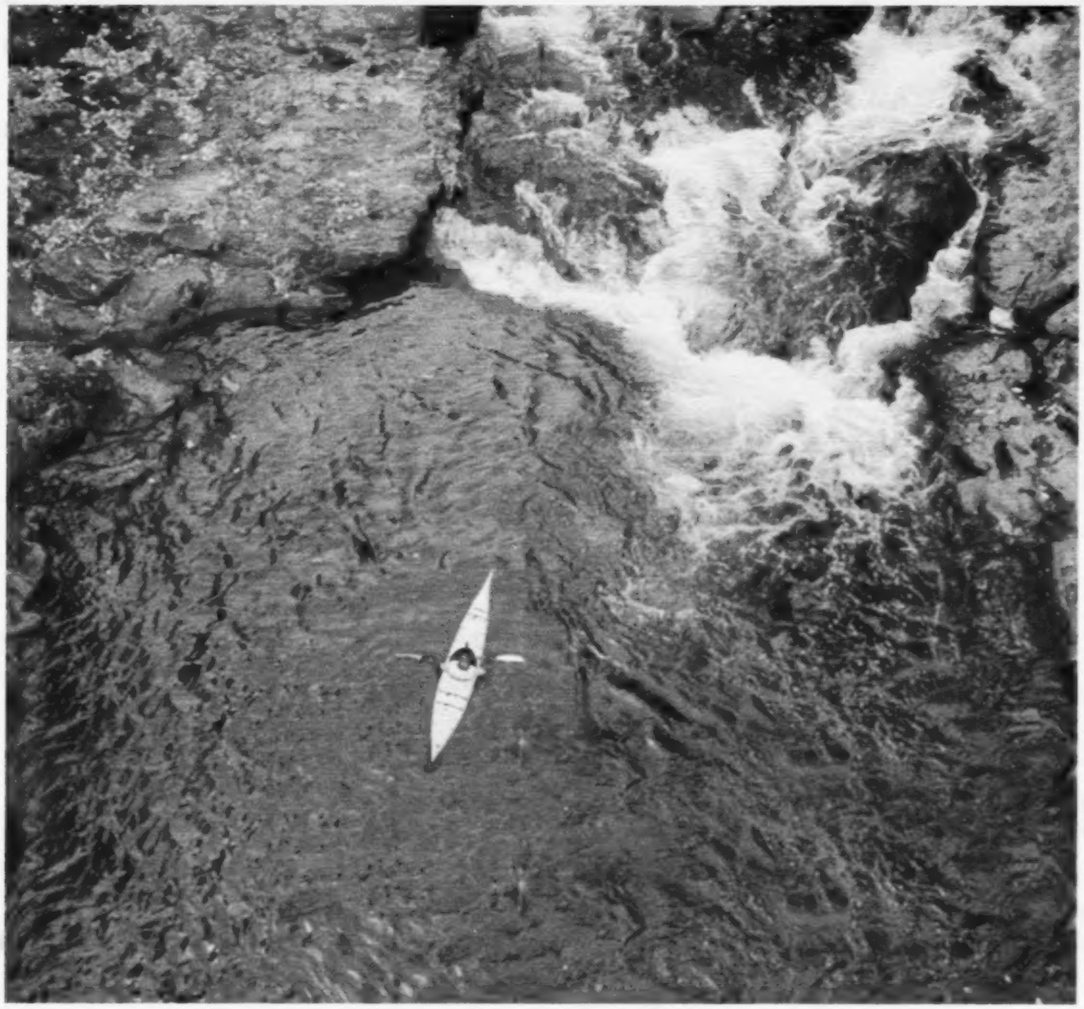

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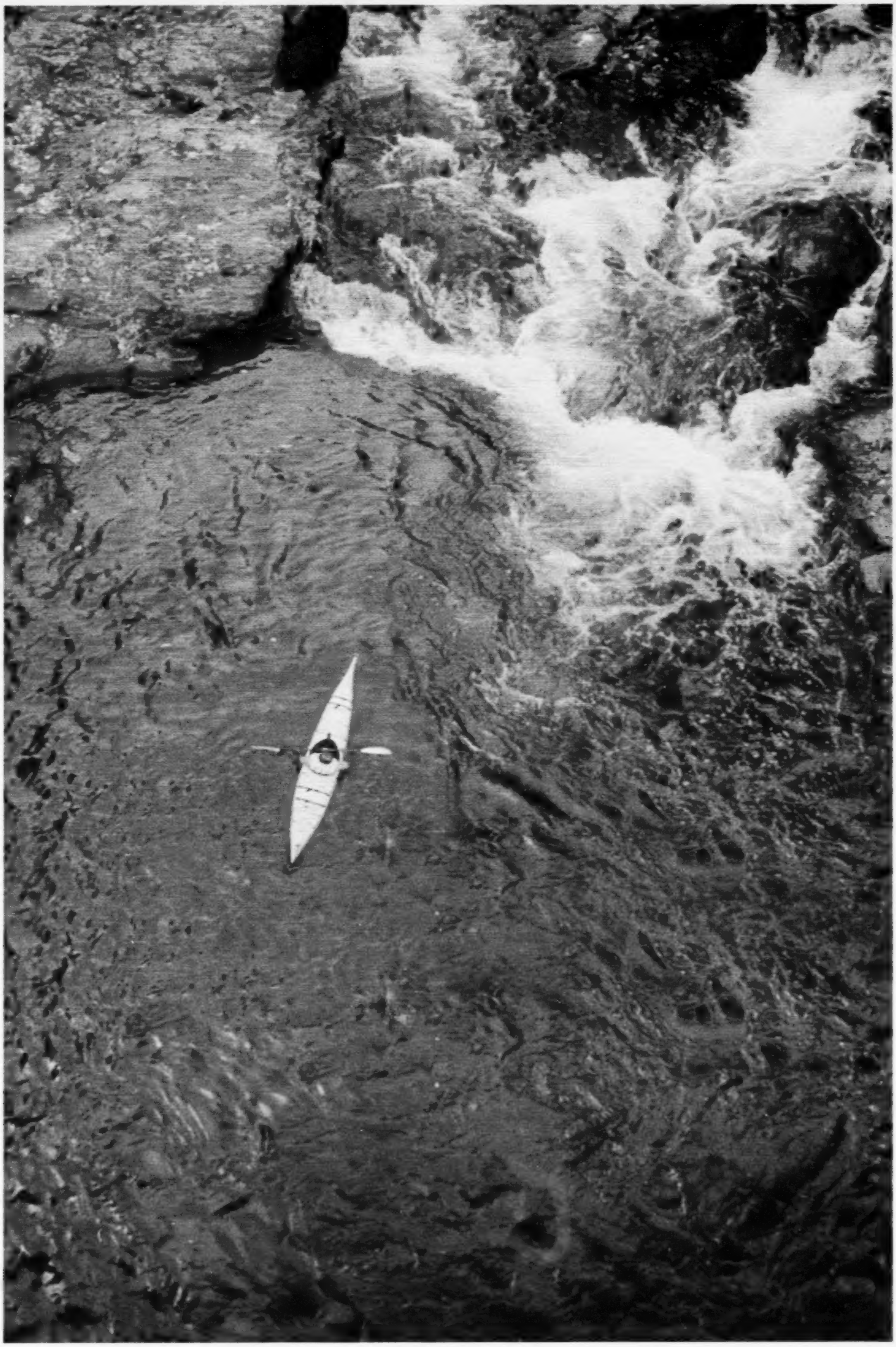

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1.1 Ready for White Water?

Momentum is building in the global economy. If it's not obvious to the naked eye, well, neither is the rising water level in a large lake after a significant rainfall. But the rush of the river at the end of the lake tells it all – that's where the potential of the growing reservoir gets unleashed. It's not much different for the economy. Years of low activity levels have long since used up the excesses of the last cycle, and now suppressed activity is adding to a groundswell of pent-up demand. It's most obvious in the US economy, but is appearing elsewhere. It's the best evidence yet that global growth has begun, and is spreading.

Many are not convinced. True, the consensus view holds that something more is going on in the economy than we have seen in years. But that view is jaded by a consistent barrage of significant interruptions that have suppressed growth. A long sequence of natural events stymied growth in 2011. The UN chronicled the considerable negative effects of serious weather in diverse parts of the world in 2013. Political impasse in the US bled the economy on at least three occasions last year. Weather was again a factor early in 2014, pummelling output across a broad swath of the US. The dampening effect on growth has contributed to a broad sense that mediocre growth is here to stay.

Key indicators aren't helping. Nascent slowdown was tattooed all over the early-2014 data, a discouraging reversal from last fall's momentum. Corporate buyers were less upbeat, and industrial orders softened. The OECD leading indicator continued its upward march, extending its growth streak to 16 months. Even so, recent growth slowed, casting some doubt on the near-term outlook, and underlining the significance of US developments to current global performance.

If current performance is uninspiring, the economy's potential remains promising. In the world's richest economies, consumers have delayed purchases for years, and basic needs suggest an imminent upsurge in growth – one that has already begun in certain sectors. Businesses are also guilty of under-spending. Anxious to preserve the bottom line, businesses have filled orders by using current capacity as much as possible. Capacity is now considerably tighter, and in certain cases is approaching pre-recession peaks. Flush with cash, businesses the world over are poised to spend, but remain shackled by a "you-first" investment mentality.

Potential that is even more certain comes from an unlikely source. Government spending and investment has for years exacted a scathing toll from OECD economies, owing to outsized austerity measures. It's obvious from recent data that the measures have done the trick: one by one, economies all over the OECD are posting significant improvements in public finances. As such, these same governments are expected to stick to established plans that collectively will see far less drag on the economy this year. It's a sort of coordinated fiscal dividend that will contribute no small addition to 2014 growth.

If so, we can expect an imminent improvement in OECD indicators. That covers about half of global GDP. What of the other half? News there has been on the grim side for months. Excesses in China, bumbling in India, delays and insurmountable capacity constraints in Brazil, conflict in Russia – from a large-emerging-market perspective, nothing seems to be going right. Moreover, the effect is cascading to their smaller cousins. It's tempting to see in this a levelling, or rebalancing, of developed and emerging market growth. But that would be short-sighted. For the moment, emerging markets as a whole are still followers, dependent on growth in the wealthier economies. They decoupled from the rich set during the crisis only because years of prosperity provided the means to extend growth through policy measures. Now they find themselves between the end of self-funded growth and the return of global trade. The imminent return of the latter is expected to re-ignite emerging market growth through 2014.

It may seem fanciful, but our shock-weary world may be in for a jolt of a different sort. Growth is poised to arrive in a very big rush, and take us all by surprise. The hapless kayaker, lulled into complacency by a seemingly endless, placid lake, is suddenly faced with a torrent of white water. With little warning, there's a rush of investment, a flurry of hiring, a groundswell of demand, and a spreading effect that pulls even peripheral markets into the fray.

Fast water is fun, but oftimes frightening, and occasionally fatal. Likewise, the onset of global growth won't be without its hazards. The biggest potential obstacle is one we've never encountered before. Growth will trigger withdrawal of the unprecedented deluge of liquidity that central banks provided to keep the post-crisis economy upright. We've had a taste of what this means, and it's no cakewalk. The mere mention of the intent to roll back quantitative easing (QE) roiled markets. Instantly, emerging markets' access to debt and equity financing was tougher. Currencies reacted, with many emerging markets sustaining rapid depreciation. Commodity prices also recoiled, revealing the unintended distortion brought on by the QE program. Trouble is, the rollback has only just begun. If so, we can expect this growth cycle to be turbulent, one that's accompanied by an atypical tightening of liquidity.

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If tightening liquidity narrows the channel through this fast-moving water, we'll also have to watch out for the rocks. Growth will help to heal financial sector weakness, but the global economy remains vulnerable to unforeseen disruptions that could still have unpleasant domino effects. In addition, although improved, localized fiscal fragility remains a threat. Inflation is a risk that always accompanies the rapid onset of growth. Also making the short list is what may well prove to be a lasting legacy of this downturn: political unrest. If the nascent cycle is an uneven expansion – and there is growing evidence that certain economies will be more exposed to this cycle's unique hazards – then unrest is more likely to persist.

What does the faster growth look like? Key to the outlook is the US economy's acceleration from 3% growth this year to just under 4% in 2015. The world economy's engine is forecast to pull along other industrialized markets, with the Euro area rising from 1.0% in 2014 to 1.7% next year. Japan will also add to the acceleration, bringing average growth across developed markets up from 2.2 to 2.8% in 2014 and 2015, respectively. Powered by this resurgence, emerging markets are forecast to regain momentum, rising 4.9% this year and 5.5% next year.

Implications for Canada

Key features of Canada's economy stand in contrast to the quickening global story. The darling of the world economy is now faced with lower resource prices, tight capacity constraints in both industry and transportation, and much softer performance in the consumer and housing sectors. This raises questions about the growth prospects of our well-respected but domestically oriented banks. International investors seem a bit less charmed, and it appears to be rubbing off on domestic investment.

Weaker resource prices, a stronger US dollar and a fading halo effect are together taking the shine off the loonie. The unwind of QE is also weighing on the Canadian dollar, which has recently touched lows of USD $0.89 in recent weeks. The forecast calls for the loonie to average USD $0.93 this year, with a palpable risk of persistent weakness this year.

So the white water may be rushing, but is Canada stuck in a stagnant backwater, unable to capitalize on global growth? It's possible to add the numbers up that way, but certain key considerations suggest better is in store. First, the lower Canadian dollar could add as much as a half-percentage point to GDP growth this year, through stronger exports and import growth that lags behind. Second, certain exporting industries still have a decent amount of spare capacity, and can ramp up activities to meet demand. Third, surveys show that Canadian exporters switched sales into the domestic economy during the crisis, given Canada's resilient performance. Domestic weakening will free up this sales capacity for foreign markets.

A fourth factor is perhaps more debatable. Although currently hesitant, Canadian exporters can increase export sales capacity by investing rapidly in machinery and equipment – and the stats show that they have the funds on hand to do it. Fifth, diversification of sales into faster-growing emerging markets is alive and well, and is likely to capitalize on resurgent emerging market demand. Finally, there is potential for Canadians to tap into export markets by teaming up with our capital-rich financial institutions to secure trade and investment contracts. Canada is forecast to see GDP growth accelerate from 2.2 % this year to 2.8 % in 2015. Real export growth is a mainstay of the forecast, rising to 5.8 per cent per cent in real terms in 2015 following 2.5 % growth this year.

Export growth will be powered by accelerating activity in the machinery and equipment, aircraft, metals, chemical/plastics and consumer goods sectors, and yet another double-digit year for forestry products. Price declines will weigh on growth in the agri-food and energy industries, while the advanced technology and auto sectors remain sluggish, constrained by capacity limitations.

The bottom line? The world is on the threshold of a rush of growth. It promises to be a wild ride, not for the faint of heart. But shooting these rapids well is essential to securing new opportunities as the world economy advances. Canada is no stranger to challenging conditions, and remains structurally well positioned to navigate the rapids skillfully. So, who's up for some white water? Let's get ready!

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Table 1: Key Economic Estimates (KEEs)

EXPORT FORECAST OVERVIEW	2011	2012	2013	2014(f)	2015(f)
GDP (%y/y)					
Canada	2.5	1.7	1.7	2.2	2.8
United States	1.8	2.8	1.9	3.0	3.9
Euro Area	1.5	-0.7	-0.4	1.0	1.7
Japan	-0.6	1.4	1.7	1.4	1.1
Developed Markets	**1.7**	**1.4**	**1.3**	**2.2**	**2.8**
Emerging Asia	7.8	6.4	6.5	6.5	7.1
Latin America and the Caribbean	4.6	3.0	2.6	3.3	3.7
Emerging Europe	8.1	5.2	3.3	2.3	2.8
Africa and Middle East	4.4	4.7	3.1	4.3	4.7
Emerging Markets	**6.2**	**4.9**	**4.7**	**4.9**	**5.5**
World Total	**3.9**	**3.1**	**3.0**	**3.6**	**4.2**
Currencies					
USD/CAD	1.01	1.00	0.97	0.93	0.93
Commodity Prices					
WTI	$95	$94	$98	$96	$90
Lumber	$255	$318	$355	$405	$420
Copper (USD/MT, LME)	$8,810	$7,947	$7,322	$6,882	$6,282
Wheat: Canada (USD/Metric Ton)	$440	$440	$440	$420	$380
Other					
US housing starts	611.92	783.17	927.50	1,180.00	1,400.00

Sources: Statistics Canada, EDC Economics

Table 2: Canadian Merchandise Exports Forecast by Region

EXPORT FORECAST OVERVIEW	CAD bn 2013	% Share of Total Exports 2013	Export Outlook (% growth) 2013	2014(f)	2015(f)
Developed Markets					
United States	334.7	75.5	5.4	6	6
Western Europe	33.8	7.6	-12.5	4	5
Japan, Oceania and Developed Asia	22.8	5.1	10.9	6	5
Emerging Markets					
Latin America and the Caribbean	12.5	2.8	-3.5	8	3
Emerging Europe and Central Asia	3.8	0.9	-2.4	6	6
Africa and the Middle East	7.2	1.6	-5.9	10	9
Emerging Asia	28.4	6.4	7.2	11	7
Total Goods Exports	**443.1**	**100.0**	**3.6**	**6**	**6**
Total Emerging Markets	**51.9**	**11.7**	**1.8**	**10**	**6**
Total Developed Markets	**391.2**	**88.3**	**3.8**	**6**	**6**

Sources: Statistics Canada, EDC Economics

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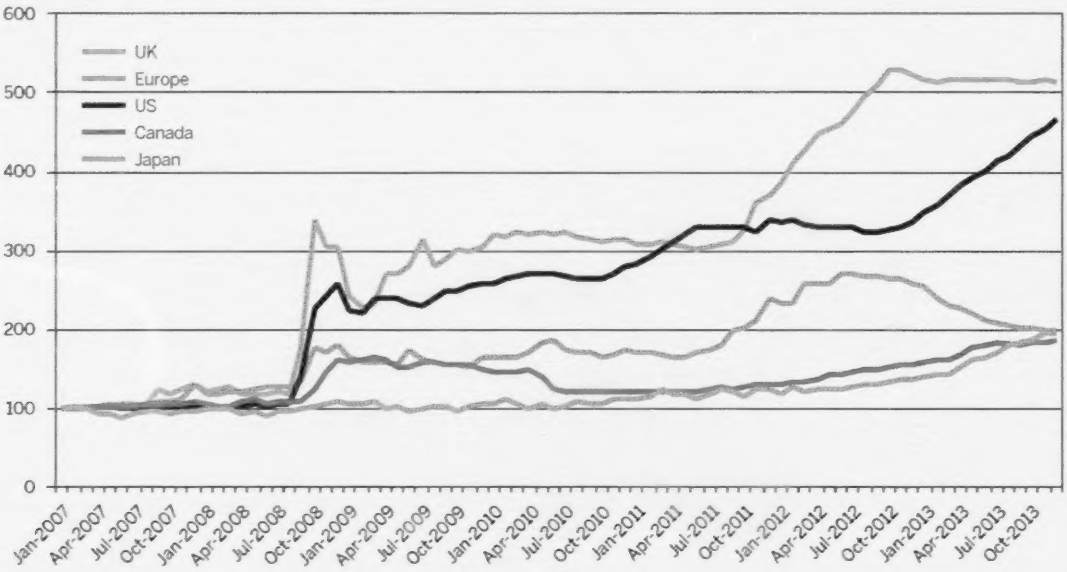
1.2 Turning Off the Taps: What the Withdrawal of Quantitative Easing Means for the Global Economy

An unprecedented change is currently under way in financial markets, something not seen in the history of the global economy. For nearly 5 years, the global financial system has been awash in liquidity, flooded with a torrent of dollars, but the tide is turning. Additional injections of quantitative easing (QE) by the US Federal Reserve are likely to cease entirely by the end of 2014, and next year the Fed will shift into a tightening cycle. As the US economy accelerates in 2015, the central bank will have little choice but to raise interest rates. This will have global implications.

And it's not just the US, the European Central Bank and the Bank of England also had increased their asset holdings massively, but are now pulling back or holding steady. Only the Bank of Japan is set to continue monetary stimulus in the years ahead in a determined effort to defeat deflation once and for all.

We are still learning about the effects of the injection of so many trillions of dollars liquidity, many of which have been quite unexpected such as the creation of asset bubbles. The removal of trillions of dollars from the global economy could be equally fraught with unintended consequences and the truth is that we don't really know how it will play out.

Figure 1: Monetary Stimulus: A popular policy



Source: Central Bank Assets (January 2007 = 100)

The introduction of QE was absolutely vital in shoring up a collapsing financial system. Back in 2009, there was extraordinary coordination among rich country governments. The G7 agreed to provide large stimulus programs collectively amounting to nearly 4% of GDP, while their central banks lowered interest rates simultaneously in a show of strength that the world's largest economies were working together. But this was no ordinary downturn and interest rates dropped to zero, while credit was still contracting at an alarming pace and unemployment continued to climb. In an unprecedented move, the Fed took on an extraordinary experiment in monetary policy. In lieu of targeting an interest rate, already at zero, the Fed began announcing a quantity of cash that it would inject into the financial system by purchasing large numbers of government bonds and other highly rated securities, and replacing them with cash. The intention was to stimulate credit growth and lower the cost of long-term borrowing, and it also stabilized the banking system because banks had so much excess cash.

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However, a side effect of the excess cash was that some of it leaked into other asset classes such as stock markets, commodities, and emerging market bonds and currencies. A portfolio rebalancing effect occurred as investors shifted away from low-yielding treasuries and bonds into riskier, higher-yielding asset classes. As stocks, commodities and currencies surged and risk premia plummeted, many emerging market banks and sovereigns became accustomed to having easy access to cheap US dollar funding. All that is about to change.

The US economy is set for 3% growth this year and 3.9% growth in 2015. The UK will grow 2.8% this year, while the Eurozone economies are emerging from recession. If the trillions of excess cash sitting on bank balance sheets find their way into the real economy through a burst of bank lending, then inflation will take hold. Central banks are determined to guard against that and so as the economic outlook improves, they must withdraw this liquidity.

The US Fed is determined to reduce the stimulus in a gradual, measured way through the so-called "tapering," but markets sometimes over-react. The bottom line is that the withdrawal of QE can support an exciting return to growth in the US and the UK. But it will have major consequences for many asset classes and markets that benefited from the cheap US dollar funding for so many years.

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1.3 A Wild Ride for Currencies

From rumours to reality we are now seeing the beginning of the inevitable unwind. The US Fed signalled the "beginning of the end" last May, when then-chairman Bernanke commented that if progress in the economic recovery continued as expected, a moderation in the monthly pace of purchases (i.e. tapering) would likely begin later in 2013. Markets went into a tailspin. The dramatic drop in stock markets, commodity prices and currency markets was taken as a taste of what was to come, when the tapering actually began. It took almost 7 months for the hints to materialize but on December 18, 2013, the amount of new US Fed purchases dropped from \$85 billion to \$75 billion per month, followed by a similar reduction in January this year, to bring the net buying down to \$65 billion per month. So after all the hype what was the effect on currencies?

Well, the move was good news in that it signalled a growing confidence in the robustness and durability of the US economic recovery. The dramatic improvement in the residential housing market, growing confidence among households and businesses and a fully recovered banking sector are all clearly signalling the end of the great recession. However, the US Fed continues to be very cautious in its messaging, emphasizing that the tapering is not on a preset course and future reductions are contingent on labour market improvements, as well as other considerations. It also continues to emphasize that interest rates will remain low for a "considerable time" after the asset purchases end. But despite these assurances and the very cautious tone, an important psychological barrier has been crossed and the end of extremely ample liquidity is in sight.

Markets have indeed become addicted to these large and constant liquidity injections. The trillions of USDs sloshing around the global economy have blurred the distinction between emerging markets and developed and have dulled investors' sense of risk. In their incessant search for yield, investors have been buying into riskier assets across the board, driving up the demand for local currencies as they flood into emerging market stock and bond markets. While a \$20 billion reduction per month isn't large in relation to the stock of funds already in the system, it is enough to halt the buying spree and once the gains slow, markets can turn quickly.

In our publication last autumn, EDC Economics identified a ranking of countries most vulnerable to the tapering (Liquidity Flight Vulnerability Rank). Of the top five then identified (Turkey, Sri Lanka, India, Vietnam, Poland), all but Turkey saw a more muted reaction once tapering actually began than they had experienced earlier in the year. Another group of much-watched countries, termed by some as the "fragile five," which in addition to Turkey and India includes Brazil, South Africa and Indonesia, have seen more dramatic effects. All have experienced double-digit drops in their currencies since last May and all except India continued to slide through December and January's tapering.

Looking at some of these EM currency swings it would appear as though we're witnessing a flight back to the all-mighty greenback. And there has been lots of talk of a flight to quality happening amidst certain risk events. But the experiences of other developed markets paint a slightly different picture. Despite the sluggish Eurozone economic performance, and recent indications that the European Central Bank might even move to loosen monetary conditions in the Zone, the euro is actually up 5% against the USD since last May, including a 1% gain since the QE tapering began. A similar profile can be seen in the Swiss franc, which has strengthened 3% against the USD since last May and 1% over the past few months. The benign movements of the USD against a broad basket of currencies, up only 1% since tapering began and 3% since last May, is another indication that it remains a risk re-pricing story rather than a broad-based flight back to the USD.

But what's important to keep in mind is that we're still at the beginning of this new phase and it's a long road ahead. There is significant upside potential for the USD. If the US Federal Reserve tapers its QE program down to zero and then moves to outright tightening – actually selling assets from its swollen balance sheet – this could send the greenback soaring to heights seen in the early years of the 2000s. Downside risks exist in the form of geopolitical and economic risks in other parts of the world that could derail the Fed's planned tightening. But what about our own loonie?

Canada has definitely been experiencing a much wilder ride over the past few months, with volatility more in line with the fragile five than with the other developed markets. The answer becomes clear when we cast our eyes to our colleague "down under" which has seen its Australian dollar drop 17% in the last year, including a 5% drop just since the tapering began in December. While Canada's loonie hasn't moved as dramatically, falling 7% since last May and just 4% since December, the fact that both countries produce and export significant amounts of commodities can explain much of the drop. And indeed, commodity markets are also exposed to the QE tapering effects, particularly those that have a large investment component – such as gold and copper – both big exports for Canada. Gold's drop of 16% since QE tapering was first mentioned back in May 2013 is noteworthy but it's also very likely that investors were a bit ahead of the game in this market, as prices had been weakening for some time before this. Gold prices are down a whopping 30% from the peak of 2011. The same is true for copper, which has actually seen a modest increase in price in early 2014 thanks to supply side developments, but the red metal is down 26% from recent highs, reflecting both fundamentals and investor activity.

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So, while some commodities have been on a weakening trend, this doesn't explain recent CAD movements. A key driver of the Canadian dollar, oil prices remain high while interest rates in Canada are unchanged. Instead, we expect that the "halo effect" that Canada has enjoyed during the years since the global financial crisis is beginning to wear off, thanks in part to the US Fed's decision to start paring back the liquidity it's sending out into the world. The USD is back and will be gaining strength over the next few years. Good news for Canadian exporters that have adjusted to a Canadian dollar at parity with the USD!

Table 3: Average Exchange Rate

	Change Since May 2013 (Tappering hinted at)	Change Since December (Tappering began)
Fragile Five		
Brazilian real/USD (AVG, BRL/USD)	-19%	-5%
Indonesian rupiah/USD (AVG, IDR/USD)	-25%	-6%
Indian rupee (INR/USD)	-14%	1%
Turkish lira/USD (TRY/USD)	-23%	-10%
South African rand (Avg, ZAR/USD)	-19%	-7%
Developed Market Currencies		
Euro/USD	5%	1%
Swiss franc (CHF/USD)	3%	1%
CAD/USD	-7%	-4%
Australia/United States (AUD/USD)	-17%	-5%
EDC's Liquidity Flight Vulnerability Ranking		
Sri Lankan rupee (Avg, LKR/USD)	-4%	0%
Indian rupee (INR/USD)	-14%	0%
Polish zloty/USD (AVG, PLN/USD)	4%	-1%
Vietnamese dong (AVG, VND/USD)	-1%	0%
Turkish lira/USD (TRY/USD)	-23%	10%

Source: Haver Analytics

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1.4 Emerging Markets' Access to Capital – Big Changes Ahead?

A large part of the growth seen in Emerging Markets (EMs) in recent years has been built on readily accessible and affordable credit. Between 2009 and 2012 as QE ramped up, there was a massive expansion in borrowing on global bond markets by
EM sovereigns, banks and companies. As a result, EM economies are now closely integrated into global debt markets and actions taken in Developed Markets (DMs), particularly the withdrawal of QE, will have a much more direct impact on EMs than ever before.

One of the most direct impacts of the QT process is that capital is becoming more difficult to access and expensive for EM sovereign and corporate entities. As a result of the change in availability and pricing of capital stemming from QT, Moody's estimates that emerging economies could face a cumulative 2013 to 2016 GDP growth loss of roughly 3% – double the impact expected to be felt in DMs.

It is worth noting that reduced access to capital is not just a consequence of QT, but economic and political factors internal to each country are also having an impact. Many countries are seeing economic slowdown or political instability coming at the same time as the tighter global credit environment, a challenging confluence of events. As a result, tighter credit is being felt to different extents in different countries (so-called "market differentiation") as some EMs have been, and will continue to be, more impacted than others depending on the degree of external vulnerability and reliance on external financing. The most obvious impact will be a tightening of EM sovereign access to capital, implying higher borrowing costs.

While EM sovereigns have continued to access capital, it is coming at an increased cost. The JPM EMBIG (EM Sovereign Index) has seen bond yields increase by 46% from their low point over the past 3 years to end of February. In looking at individual countries, it is clear that these increases are not entirely related to QT as some sovereigns have seen massive jumps owing to internal risk dynamics; Venezuela sovereign bond yields have jumped 88%, Ukraine 79% and Nigeria 71%.

Low interest rates and easy availability of USDs also impacted the commercial space in EMs. Hard currency borrowing by EM market corporates has grown significantly, from $164 billion in 2009 to $502 billion by the end of 2013. This has been a boon for corporate growth and investment, but with the years of access to cheap and easy capital slowly coming to an end, what does it mean for business in the years ahead?

Firstly, the EM corporate sector might not be hit as hard as the sovereign space due to the quality and resilience of the EM corporate bond market, much of which is investment grade. The May 2013 announcement of QE tapering did lead to a spread spike, with the Credit Suisse Emerging Market IDBS Index rising from 326 bps on May 15, 2013, to a 2013 high of 448 bps 5 weeks later. However, the yields have since declined and, in fact, the average EM corporate spread has been lower than the average over the last 4 years (loosely considered the QE period) of 406 bp.

The risk is that as tightening continues and interest rates rise, a significant increase in borrowing costs could threaten these EM corporates' positions and ratings. Between 2014 and 2018, approximately $430 billion in hard currency bonds will mature, with major refinancing risks should borrowing costs continue climbing.

This situation could be much worse should local currencies continue depreciating. Foreign currency-denominated debt now accounts for roughly 40% of the total in emerging markets. Those companies that are generating revenues in local currencies that are worth 20 to 30% less than a year ago may struggle to repay external debt.

As laid out above, entities in EMs, both sovereign and corporate, have benefited from the period of QE of the past several years with greater access to capital at lower rates. The impact on individual countries and companies will vary considerably. With the exception of the most fragile, the tapering process is unlikely to greatly undermine most EM sovereign and corporate entities. And with most situations, there are opportunities to be found. With a pullback of capital from the EM space, there are opportunities for EDC and Canadian financial institutions to fill some of the gaps and machinery and equipment opportunities to explore for Canadian corporates.

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1.5 2014: The Year of Politics – Will Quantitative Tightening Have an Impact

This year will see big political events in some of the most important emerging markets. Brazil, India, Indonesia, Turkey and South Africa all have elections in 2014. These also happen to be members of the fragile five countries most vulnerable to the withdrawal of QE. Does a more challenging financial environment make a big difference? And what about countries that are already struggling with social unrest and popular protest? Scanning the news headlines lately might have you asking what is going on in the world and which country is going to break out in protests next. How will they cope with the withdrawal of QE?

Back in May 2013, just the mere threat that the US Federal Reserve might begin gradually withdrawing liquidity from the market created mass turbulence across emerging markets. Almost a year later, the tapering of QE has begun in earnest and EM currencies and bond spreads from Argentina to Indonesia continue to gyrate. While the focus in the media has been largely on the financial and economic impact of the tapering, there are also ramifications for political stability. The big question is whether the economic developments currently underfoot have the propensity to increase social unrest and volatility.

The reason these countries are vulnerable to a withdrawal of QE is because their banks and bond markets have become accustomed to cheap borrowing in US dollars, a situation that is changing. The withdrawal of QE means that interest costs will increase, credit growth will slow, the currency will depreciate making imports more expensive, and all of this together will cause a slowing domestic economy.

However, in time investors will likely begin differentiating those countries with solid macroeconomic fundamentals and reform agendas from those with institutional and political weaknesses. Following a decade of robust growth, much of it on the back of the commodity super-cycle and access to cheap capital, a re-assessment of credit is under way. This was underlined by the head of the Inter-American Development Bank, Luis Alberto Moreno's recent comment on Latin America: "We've come from an era of growth and increasing prosperity and, as the good situation starts to recede, the structural weaknesses that were always there and were masked by the growth resurface, become again apparent and impactful."

Last year, with the announcement of the beginning of Fed tapering looming, EDC developed its own list of countries most vulnerable to a liquidity flight. The rankings were based on the average of a country's current account balance, portfolio flows and bank credit growth. This provided a good snapshot of which country was most exposed to external shocks. Looking at this another way, how vulnerable are these same countries to internal combustion? We overlaid this same list of most vulnerable countries with a number of inward looking indicators to see.

One way to measure the mood of a population at a particular moment is through the Misery Index, which is simply the inflation rate added to the unemployment rate, to gauge economic weakness. We looked at those countries with scores above the 15% threshold, and then we examined the change in currency, interest and growth rates over the past year as well as the structural pillars of institutions and macroeconomic environment found in the World Economic Forum's Global Competitiveness Index, which assesses a country's productivity and prosperity. Together this provides a useful analysis of which markets are already experiencing economic strains that would make them susceptible to social or political discontent. Effectively, those markets that are already experiencing economic stress in the form of high unemployment and rising inflation are most susceptible to a rise in popular discontent stemming from a tougher financial environment. Against these metrics, Turkey and Ukraine exhibited the highest vulnerabilities, followed by India, Argentina, Dominican Republic, Indonesia and Brazil.

Discontent on its own is rarely what leads to popular protests. Rather it is a complex mix of external and personal factors that determine whether individuals go to the street to express their grievances. That being said, rising interest rates, diminished purchasing power and growing unemployment can exacerbate existing tensions. It's clear that with slower growth and tighter budgets, competition for fewer resources may lead to more conflict within society.

This is especially true for the large segments of the population that are at the lower end of the middle class and that have been enjoying an improving standard of living, buying consumer goods like appliances and mobile devices with easy credit. But as the gates of free-flowing credit begin to close, consumer sentiment has started to shift. That, coupled with the mounting structural constraints of slowing EMs such as infrastructure bottlenecks, could further exacerbate the vulnerable political conditions in markets like Brazil.

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The gradual withdrawal of QE is perhaps the trigger for two divergent paths for EMs. Some governments will see the tightening of liquidity, to which they have become accustomed, as a wake-up call to implement the structural reforms their economies need and be rewarded for it (like Mexico). Other governments will struggle, blaming markets or falling back on the crutch of increased nationalism and trade protectionism. As borrowing costs rise, many populists will come under pressure as they will have less room to spend.

Overall, the combination of rising interest costs, slower credit growth, weaker currencies making imports more expensive, and a slowing domestic economy will exacerbate social discontent while the government has limited resources to spend. And, there are a total of 44 elections taking place in EMs this year, from Nigeria to South Africa, India, Brazil, Colombia and Indonesia among others. The year 2014 is shaping up to be pivotal to determine which road many of these countries choose and the year to keep a close eye on global politics.

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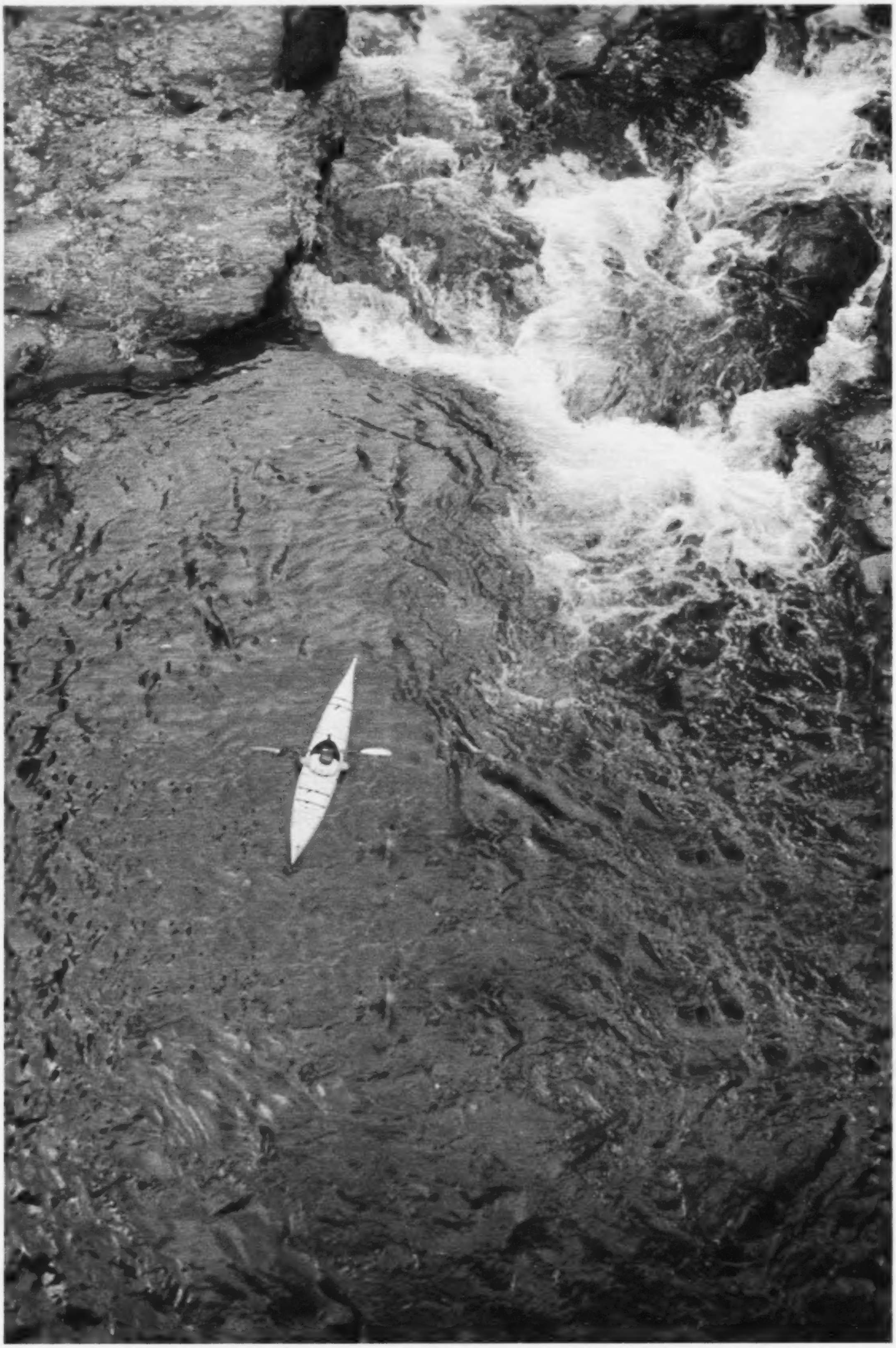

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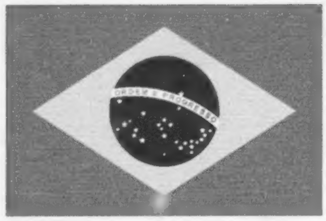
2.1 Brazil

Country Overview: President Dilma Rousseff took office on January 1, 2011, backed by a 10-party coalition representing 70% of Congress. Political progress requires constant horse-trading that slows the passage of fundamental reforms such as tax policies, widely considered necessary to maintain fiscal sustainability and accelerate growth. Due to increasing public discontent over the cost of living and doing business, corruption, poor infrastructure and services such as health and education, the government will attempt to address these structural issues as the October 2014 elections near. Despite the government's efforts, Brazil's structural problems will not likely be resolved over the short term. Although the economic slowdown continued into 2013, EDC Economics expects the economy to moderately pick up speed on the back of an uptick in industrial production and manufacturing. GDP grew by 2.3% in 2013 and is forecasted to expand by 3.0% in 2014.

Trade and Investment Environment: Massive capital inflows and FX intervention allowed FX reserves to grow to over USD 350 billion in 2013, which supports a strong liquidity ratio; however, slow investment and softer commodity prices have reversed some of the large capital flows and, coupled with the upcoming withdrawal of monetary stimulus, we are likely to see impacts on reserves and continued exchange rate movements. The real depreciated significantly in the first half of 2013 and although we expect a moderation, it is likely to remain above crisis levels. Despite forecasting a current account deficit and relatively weak inflows of investment, Brazil's external financing requirements are comfortably covered by net FDI and portfolio inflows. In sum, Brazil's net external creditor position and strong external liquidity will continue to mitigate risk of external shocks.

Outlook: Over the short term, downside risks include dampened consumer and business confidence, as well as its impacts on domestic consumption and investment outlook. The government also needs to continue strengthening banking regulations to deal with rising household indebtedness and debt servicing costs relative to income. In the medium term, some structural reforms need to be undertaken to ensure sustainable growth and improved fiscal flexibility. The government is attempting to address infrastructure constraints by increasing concession contracts, but is likely to continue dragging down potential growth unless significant investments materialize. The FIFA World Cup and the Olympics offer excellent opportunities for exporters and investors over the next three years.



COUNTRY STATS

President
Dilma Rousseff

Next Elections
October 2014

Nominal GDP (2013)
USD 2.25 tr

Total Trade/GDP (2013)
26%

Exchange Regime
Free float

Canadian Merchandise Exports to Brazil (2013)
CAD 2.3 bn

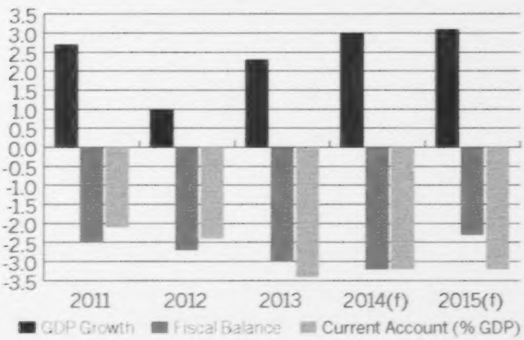
Top Sectors
Machinery and Equipment, Other industrial goods, Energy

Sources: Haver Analytics, Industry Canada

Risks to the Outlook:

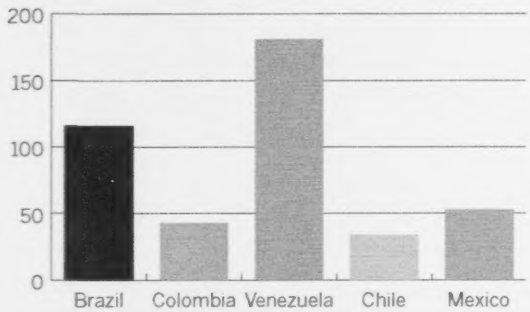
- ▲ Further progress on microeconomic reforms
- ▼ A sharp reversal in capital flows or asset bubble formation

Figure 2: Brazil – Economic Indicators



Sources: Haver Analytics, IMF/WEO, EDC Economics

Figure 3: Ease of Doing Business: Regional Comparison (best=1)



Source: The World Bank

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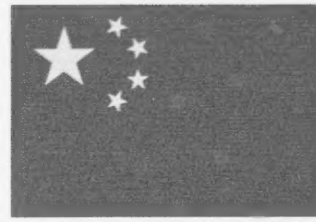
2.2 China

Country Overview: China is the world's largest exporter and second-largest economy, and has one of the strongest growth rates of any G20 country. The Chinese Communist Party (CCP) maintains a firm grip on society and all levels of government, including significant control over the economy through various state-owned enterprises and the banking system. The new administration is unlikely to spur growth beyond 7.5% – the days of rampant fixed asset investment and easy credit are over. The CCP plans to shift growth inland toward the Western provinces, which includes infrastructure, industry and linking these new urban centres to the East. The Shanghai Free Trade Zone will serve as an incubator for economic reform as China opens up further.

Trade and Investment Environment: China continues to be a top destination for FDI despite capital account restrictions. Meanwhile, a complicated commercial environment poses challenges for foreign investors, ranging from a lack of legal protection and intellectual property rights, inconsistent application of regulations, a burdensome bureaucracy, and corruption. Responding, the November 2013 plenary indicated China's shift to a more rules-based business environment, though implementation and enforcement may be inconsistent across regions and industries. The CCP leadership recognizes the importance of tackling corruption to ensuring its legitimacy and will continue to address the issue. The Canada and China Foreign Investment Protection Agreement announced in February 2012 must still be ratified in both countries.

Outlook: China's growth model is being transformed to be more consumption driven, and this, coupled with an aging population, will result in a more moderate growth profile. At the same time, China will continue to move up the value chain with greater emphasis on home-grown R&D and higher value-added sectors. The November plenary saw specific policy reform pronouncements targeting deregulation and opening up to allow private competition and foreign investment, financial liberalization, land ownership, social security, resource pricing, state-owned enterprises, fiscal consolidation, relaxing the one child policy, and developing a municipal bond market. Political stability remains a top priority for the CCP, which views continued and regionally balanced economic growth as a key to prosperity and legitimacy. Yet, localized unrest over various social issues such as corruption, land seizures, wages and working conditions will continue and will likely increase if economic growth and income redistribution falters.



COUNTRY STATS

President
Xi Jinping

Next Elections
Not applicable

Nominal GDP (2013)
USD 9.4 tr

Total Trade/GDP (2013)
54%

Exchange Regime
Crawling peg

Canadian Merchandise Exports to China (2013)
CAD 20.2 bn

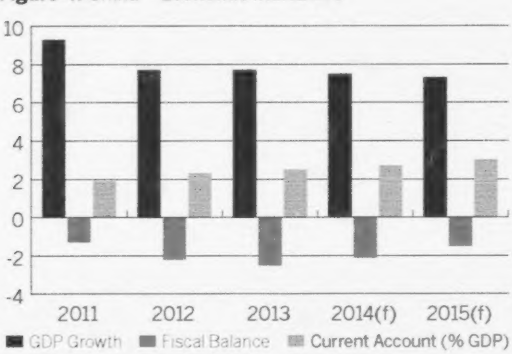
Top Sectors
Pulses, Coal, Wood pulp, Lumber, Iron ore, Mineral fuels

Sources: Haver Analytics, Industry Canada

Risks to the Outlook:

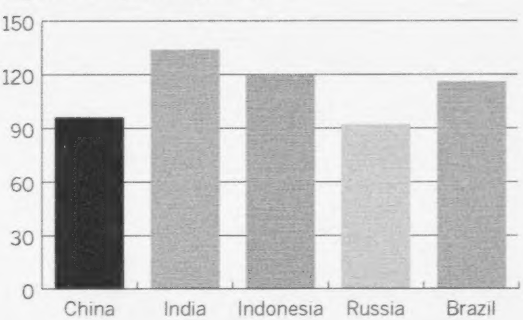
- ▲ Successful financial sector reforms, effective anti-corruption policy
- ▼ Property sector collapse and impact on banking sector, rise in social unrest

Figure 4: China – Economic Indicators



Sources: Haver Analytics, IMF/WEO, EDC Economics

Figure 5: Ease of Doing Business: Regional Comparison (best=1)



Source: The World Bank

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2.3 Euro Area

Country Overview: The Euro Area emerged from recession in the second quarter of 2013 and much of the fear about a breakup of the euro has dissipated following the European Central Bank's announcement that it would undertake unlimited bond purchases. Nervous investors are re-entering European capital markets; however, growth remains tepid and unemployment is still quite high at over 11%. The EU, in concert with the IMF, has deployed vast resources to prevent disorderly default among smaller countries of the Periphery, but a great deal remains to be done.

Trade and Investment Environment: Collectively, the Eurozone is the world's largest economy with nearly 20% of global GDP. Strong adherence to contracts, a welcoming investment environment, and a rigorous legal environment characterize most countries of the Eurozone. Challenges of excessive regulation and labour market rigidities are being addressed by a wide variety of reforms at the national level. Canada and the EU have completed negotiations on a Comprehensive Economic and Trade Agreement (CETA). The CETA will provide improved market access to Canadian companies, thereby boosting bilateral trade and fostering even more investment.

Outlook: Eurozone GDP is forecast to grow by 1% in 2014 and 1.7% in 2015. Market conditions have improved but will continue to be stressed by a weak financial system. The European Central Bank's pledge to purchase sovereign bonds is helpful, but hundreds of billions may be required to prop up bond markets (particularly if Italy and Spain suffer contagion) and it's not clear how far the central bank is willing to go in expanding its balance sheet. In the medium term, European leaders are exploring options for greater political union, such as mutualized debt (European bonds), fiscal transfers and EU-wide bank supervision. These types of solutions will take years to negotiate and implement.

COUNTRY STATS

Prime Minister/President
José Manuel Barroso

Nominal GDP (2013)
USD 12.4 tr

Total Trade/GDP (2013)
86%

Exchange Regime
Currency Union – the euro

Canadian Merchandise Exports to European Union (2013)
CAD 38.7 bn

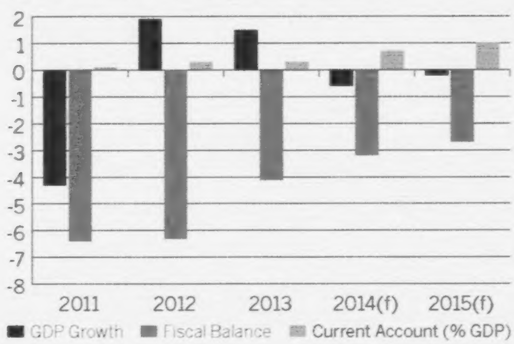
Top Sectors
Metals, Aerospace products
Automotive products

Sources: Haver Analytics, Industry Canada

Risks to the Outlook:

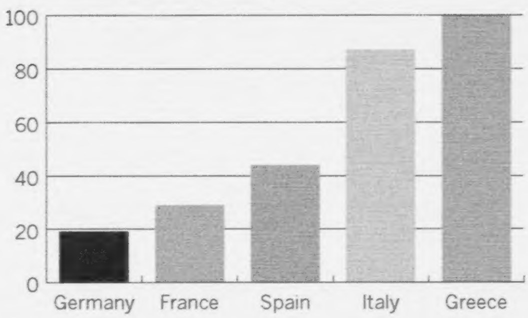
- ▲ Greater political union, mutualized debt
- ▼ Countries exiting the euro

Figure 6: Euro Area – Economic Indicators



Sources: Haver Analytics, IMF/WEO, EDC Economics

Figure 7: Ease of Doing Business: Regional Comparison (best=1)



Source: The World Bank

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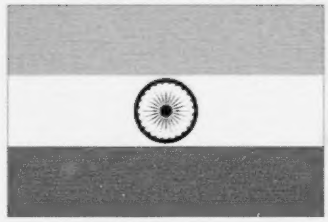
2.4 India

Country Overview: The economy appears to have bottomed out, and momentum will gradually return on the back of stronger agricultural output and a gentle global rebound. Despite some easing of inflationary pressures, year-over year price increases remain close to double-digit territory, restricting the reserve bank's scope to manœuver. Sizable fiscal deficits also limit policy options. Effort is needed to consolidate spending and broaden revenues. Amid election spending and a sound agricultural harvest, growth will improve in 2014 and 2015. Democracy, a cornerstone of Indian politics, is characterized by coalition governments led by either the Congress Party or the Bharatiya Janata Party. The April 2014 parliamentary elections will likely result in a coalition led by either of the two main parties. For the first time in history, almost 40% of voters will be under the age of 35.

Trade and Investment Environment: India's foreign investment policy allows 100% foreign ownership in most sectors, yet FDI inflows remain weak. Foreign companies are holding back due to corruption, bureaucratic delays, uncertainty over regulations, policy reversals and even to policy disconnect between the federal and local governments. The federal government took some steps to re-ignite FDI and more is expected after the elections. The rupee's weakness in 2013 should boost exports in the coming 12 to 24 months, though currency depreciation is not a long-term fix. EU banks are reported to have scaled back activity, which could open the door for other players.

Outlook: Despite the current bout of economic weakness, the mid- to longer-term growth trajectory remains fairly robust at over 6%. India's workforce is projected to grow by about 2% annually over the coming decade, and this young workforce will deliver a growth dividend. Meanwhile, the country will gradually move forward on trade and investment liberalization. India has pushed ahead with free trade agreements with Japan, ASEAN (Association of Southeast Asian Nations) and more recently the EU. A free trade agreement is currently under negotiation with Canada. Further liberalization is expected, although coalition politics will ensure a bumpy ride.



COUNTRY STATS

Prime Minister
Manmohan Singh

Next Elections
April/May 2014

Nominal GDP (2013)
USD 1,900 bn

Total Trade/GDP (2013)
56%

Exchange Regime
Managed float

Canadian Merchandise Exports to India (2013)
CAD 2,800 mn

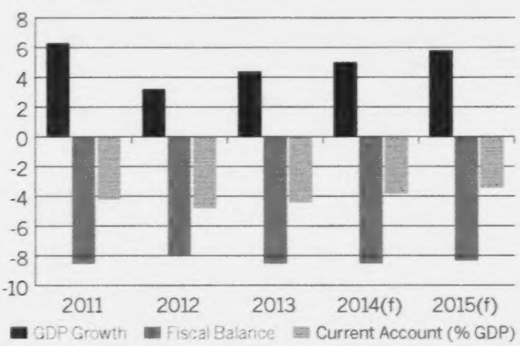
Top Sectors
Pulses, Aircraft, Newsprint, Coal

Sources: Haver Analytics, Industry Canada

Risks to the Outlook:

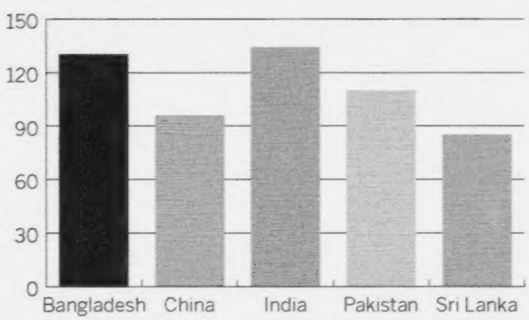
- ▲ Improved FDI inflows, declining inflation (food)
- ▼ Legislative stalemate, inability to contain fiscal outlays

Figure 8: India – Economic Indicators



Sources: Haver Analytics, IMF/WEO, EDC Economics

Figure 9: Ease of Doing Business: Regional Comparison (best=1)



Source: The World Bank

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2.5 Japan

Country Overview: Japan remains the world's third-largest economy and a heavy industrial manufacturing and technology powerhouse in spite of two decades of economic weakness and persistent deflation. Despite being a mature developed country with sound democratic institutions, there remain key structural challenges that dampen growth potential and reform momentum due to a conservative political culture and powerful vested interests. Armed with a strong electoral performance, including a majority position in parliament, the current administration should provide much-needed policy continuity and political stability. Since coming to power, Prime Minister Abe has launched an ambitious and unorthodox three-pronged program – fiscal stimulus, monetary easing and structural reforms (dubbed Abenomics) to resuscitate the economy. The policy stimulus appears to be bearing fruit, at least in the short term. Still, wage growth and investment in plant and machinery have not taken hold in a sustainable manner. The trade balance remains in deficit due to both a weak yen and the reliance on fuel imports to generate power, but is cushioned by one of the world's largest FX reserve bases.

Trade and Investment Environment: The trade and investment environment is mature and liberal with very few formal restrictions. FDI inflows have tended to lag OECD countries, likely due to non-tariff barriers and the peculiarities of Japanese corporates. Overall competitiveness of the economy lags behind other G7 countries and even some less developed markets. Japanese corporations remain at the forefront of high-tech manufacturing and advanced robotics. Japan is a major importer of Canadian natural resources, including metals, coal, grains and seafood. Japan and Canada have started negotiating an Economic Partnership Agreement.

Outlook: Following a strong upper house election (2013) victory for the Liberal Democratic Party, Prime Minister Abe now has the political flexibility to tackle difficult structural reforms. The success of these reforms and future prospects for Japan will depend on his ability to manage interferences by powerful vested interests both within and outside the party. At the same time, the various investment and trade treaties currently being negotiated, including the Trans-Pacific Partnership (TPP), have the potential to revitalize the economy. Stimulus measures are increasing consumer confidence, but it is unclear if inflation expectations and sustainable growth are taking hold. Capital investment and wage growth are key areas to monitor. Stimulus measures are expected to cushion the impacts of the April 2014 sales tax hike; should the impact be more severe than expected, the Bank of Japan is sure to ease further.

COUNTRY STATS

Prime Minister
Shinzo Abe

Next Elections
Parliamentary: 2016

Nominal GDP (2013)
USD 4,905 bn

Total Trade/GDP (2013)
54%

Exchange Regime
Free float

Merchandise Imports from Canada (2013)
CAD 10.7 bn

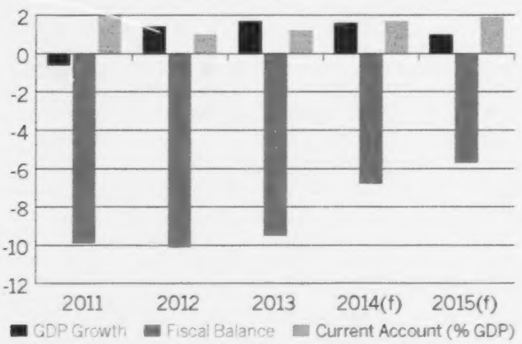
Top Sectors
Mineral fuels, Non-ferrous metals, Plant oils, Lumber

Sources: Haver Analytics, Industry Canada

Risks to the Outlook:

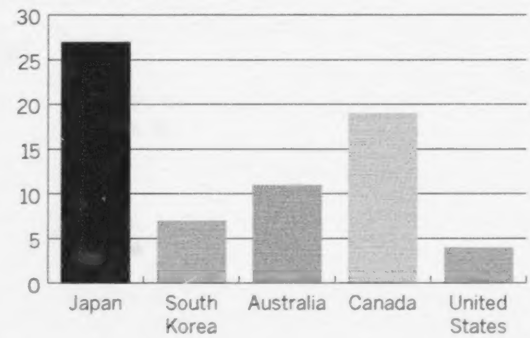
- Wage and capital investments increase, restarting of nuclear plants, wage growth
- Escalation of maritime tensions, not implementing structural reforms

Figure 10: Japan – Economic Indicators



Sources: Haver Analytics, IMF/WEO, EDC Economics

Figure 11: Ease of Doing Business: Regional Comparison (best=1)



Source: The World Bank

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2.6 Mexico

Country Overview: President Enrique Peña Nieto (EPN) of the Partido Revolucionario Institucional (PRI) has made addressing narco-related violence, improving Mexico's competitiveness, and spurring economic growth via increased FDI key government priorities.

Through the Pact of Mexico, a political agreement between the government and the two main opposition parties, his administration has succeeded in swiftly implementing a number of reforms in areas such as labour, education, telecommunications and crucially fiscal and energy. Secondary legislation on energy reform, which will go forward this year, will open up the sector to much-needed private investment that will help increase PEMEX's production and refining capacity. This should increase business opportunities for foreign investors.

Trade and Investment Environment: Mexico is a large open economy that has become an important part of the global supply chain, thanks to its large network of free trade agreements. A number of foreign companies, such as in the auto sector, are re-shoring their manufacturing operations from China to Mexico to better access the US market and lower costs. Measures have been taken to improve Mexico's business climate, and access to international arbitration is guaranteed by law and NAFTA. Recent fiscal reform will lead to higher royalty taxes for mining companies.

Criminal violence, including a rising number of extortion cases by criminal groups, negatively impacts the business environment and raises the cost of doing business. With key structural reforms under way, the government is shifting its focus on significantly reducing the violence from these groups. Other challenges to improving the country's long-term competitiveness include the lack of credit to small and medium-sized business, the relatively high cost of labour, poor education and high levels of corruption (Mexico is ranked 106 out of 177 by Transparency International).

Outlook: Strong links to the US economy and its expected recovery support a positive outlook for Mexico over the coming years, as most indicators of external vulnerability show that Mexico is in good shape. The current account deficit is low and easily financed by FDI. External debt service ratios are modest and FX reserves are high and backed by a precautionary flexible credit line with the IMF. The recent wave of reforms, energy in particular, has spurred market interest and has resulted in upgrades of Mexico by some of the rating agencies. While the government has implemented an ambitious agenda, expect the pace of reform to slow as parties start to focus on mid-term elections in 2015.

COUNTRY STATS

President
Enrique Peña Nieto

Next Elections
Presidential: July 2018
Legislative: July 2015

Nominal GDP (2013)
USD 1.2 tr

Total Trade/GDP (2013)
62%

Exchange Regime
Free float

Canadian Merchandise Exports to Mexico (2013)
CAD 4.9 bn

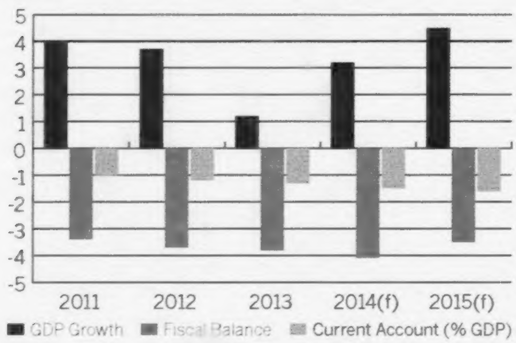
Top Sectors
Oilseeds, Automotive Products, Iron and Steel Products

Sources: Haver Analytics, Industry Canada

Risks to the Outlook:

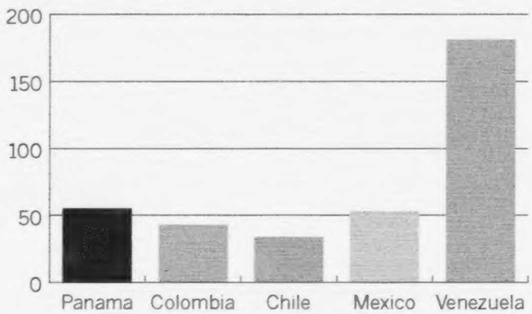
- ▲ Intermediate goods, capital goods, consumer goods
- ▼ Global economy remains weak

Figure 12: Mexico – Economic Indicators



Sources: Haver Analytics, IMF/WEO, EDC Economics

Figure 13: Ease of Doing Business: Regional Comparison (best=1)



Source: The World Bank

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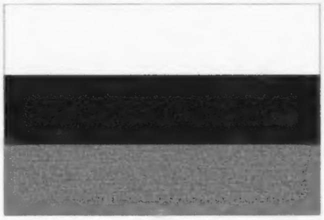
2.7 Russia

Country Overview: While growth has been moderate, particularly in comparison to fellow BRCIM (Brazil, Russia, China, India, Mexico) colleagues, the Russian economy is operating near capacity with unemployment at an historical low of below 6%, wages growing rapidly, capacity utilization at pre-crisis highs and oil production peaking at post-Soviet highs. The persistence of capital flight (net private sector capital outflows were $62 billion in 2013) is a reflection of the structural challenges, including a track record of volatile growth and inflation and weak institutions. The central bank has begun moving toward a policy of inflation targeting and letting the ruble "float" more freely, which will help cushion the economy from macroeconomic shocks.

Trade and Investment Environment: Expanding and revitalizing the productive capacity of the economy will require billions of dollars in investment over the coming years; as such, improving the investment environment has been a key focus of the government for a while. Some gains have been made; however, the country is currently ranks 112th (out of 185) on the World Bank's Ease of Doing Business index and remains a long way from the government's goal of attaining 20th spot by 2018. Russia's accession to the World Trade Organization last summer was a welcome step toward further integration into the international community, and the accompanying lower trade barriers and improved transparency should contribute to a more investor-friendly environment. Other opportunities for foreign investment via the state's privatization plans were amended last summer, with the government announcing a reduction in the number and magnitude of assets it wants to sell to the private sector. Perhaps most notable was the change in plans to reduce the state's stake in Rosneft and VTB.

Outlook: Just-released data show that Russian economic growth accelerated in the final quarter of 2013 thanks mainly to the trade side; however the data for the previous quarters (i.e. Q1 to Q3) were revised down, leaving annual growth at just 1.3%. Leading indicators for the first quarter of this year show imports down sharply (positive impact on GDP) but export growth has been weak and investment spending has plunged. Heightened geopolitical risks will weigh on investor sentiment over the coming months, dampening investment spending. While we expect capital flight to slow in the second half of the year, capital outflows this year will significantly outpace those seen in recent history (capital flight of $70 billion during January to March already exceeds amount of entire 2013) and will have an impact on Russia's external balances.



COUNTRY STATS

President
Vladimir Putin

Next Elections
Parliamentary: December 2017; Presidential: March 2018

Nominal GDP (2013)
USD 2.0 tr

Total Trade/GDP (2013)
51%

Exchange Regime
Managed float

Canadian Merchandise Imports to Russia (2013)
CAD 1.6 bn

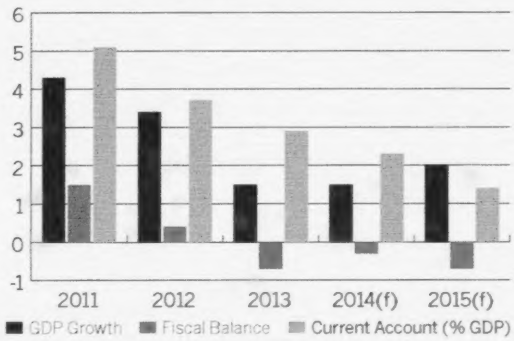
Top Sectors
Animal products, Agricultural machinery and equipment, Oil and gas machinery and equipment

Sources: Haver Analytics, Industry Canada

Risks to the Outlook:

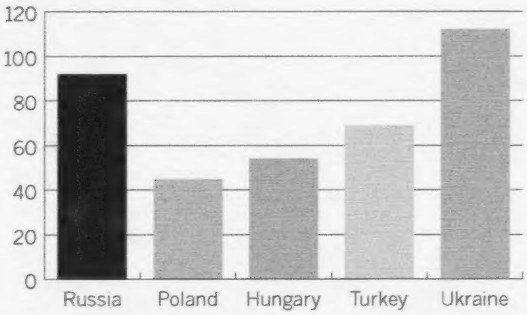
- ▲ Increased oil prices
- ▼ Capital flight

Figure 14: Russia – Economic Indicators



Sources: Haver Analytics, IMF/WEO, EDC Economics

Figure 15: Ease of Doing Business: Regional Comparison (best=1)



Source: The World Bank

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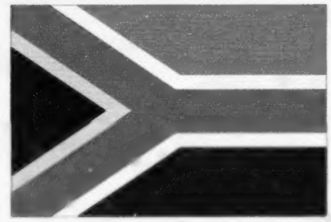
2.8 South Africa

Country Overview: South Africa is noteworthy both on its own merits and as a gateway into the region; its ports systems are essential to many of its land-locked neighbours. President Zuma will lead the African National Congress into the 2014 elections. While an ANC re-election is highly likely, several new political parties have emerged to challenge the party, which could slightly weaken the ruling party's position. The economy is well diversified and has a sizable private sector and a highly developed and well-supervised financial sector. However, the country faces some significant structural challenges, particularly in relation to the very high rate of unemployment (around 25%), an ineffective and inadequate education system and growing income inequality. These are priorities for the government, which has outlined plans to reduce unemployment and to improve service delivery. The fiscal position is relatively good and while spending pressures will increase on the wage and social services side, sufficient space for investment spending will be preserved (which includes R 3.2 trillion over 10 years for transportation, energy and housing).

Trade and Investment Environment: Given the importance of trade and investment to the economy, the government is expected to ensure that the business-friendly environment remains intact, though there are some uncertainties. Since 1994, the government has been gradually implementing its Black Economic Empowerment (BEE) strategy to redress the inequities created under Apartheid. Organized labour action is another consideration. In the worst violence seen since Apartheid ended, over 30 were left dead following clashes between striking miners and police in 2012. Militant unions and growing populist politics risk eroding competitiveness and damaging the attraction of FDI. This could spell trouble for the economy given the need for foreign funds to cover the sizable current account deficit.

Outlook: Growth in 2013 was dragged lower (2%) due to ongoing strike action in key industries and weaker-than-expected demand from key export markets (in Asia and Europe). President Zuma will represent the ANC in May elections and he and the party are highly likely to retain power, but there is growing opposition to the ruling party and to President Zuma. Consumer demand will continue to support the economy as wage and credit growth, combined with stable interest rates, encourage spending. The government's large infrastructure program will offset softening private sector investment spending and will be a critical component of the growth trajectory over the coming years.



COUNTRY STATS

President
Jacob Zuma (ANC)

Next Elections
Legislative: May 2014;
Presidential: May 2014

Nominal GDP (2013)
USD 353 bn

Total Trade/GDP (2013)
71%

Exchange Regime
Free float

Canadian Merchandise Imports to South Africa (2012)
CAD 634 million

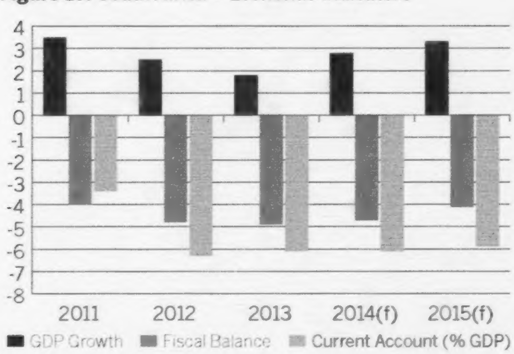
Top Sectors
Machinery and mechanical appliances, Chemical products, Vehicles, aircraft and transport equipment

Sources: IMF, Statistics Canada

Risks to the Outlook:

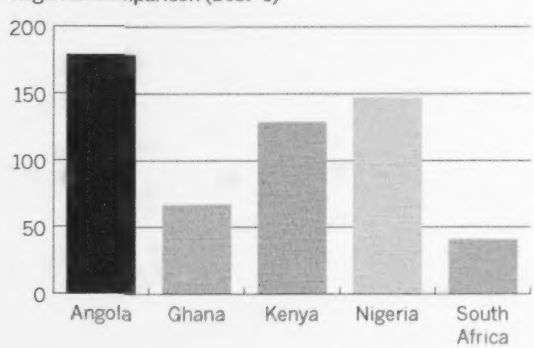
- Manageable external and government debt burden
- Large current account shortfall and declining investor sentiment

Figure 16: South Africa – Economic Indicators



Sources: Haver Analytics, IMF/WEO, EDC Economics

Figure 17: Ease of Doing Business: Regional Comparison (best=1)



Source: The World Bank

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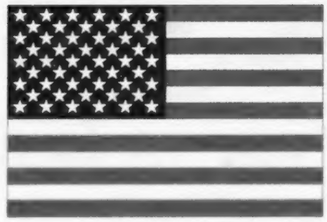
2.9 United States

Country Overview: The US is the world's largest economy, accounting for 20% of global GDP and is ranked the 4th best country in the world in terms of ease of doing business (World Bank).

Trade and Investment Environment: Exports of Canadian goods to the US are projected to grow by approximately 6% in both 2014 and 2015. The US accounts for over 70% of our merchandise exports, 40% of the stock of Canadian direct investment abroad, and 50% of all sales made by Canadian foreign affiliates. In terms of ease of trading across borders, enforcing contracts and resolving insolvency the US ranks 20th, 7th and 15th, respectively (World Bank).

Outlook: The US economy is projected to grow by 3.0% this year and 3.9% in 2015. Meanwhile, the deficit will fall to just over 3% of GDP in 2014, as tax revenues are rising because of the strengthening economy. In fact, American business is performing extremely well: corporate profits are near an all-time high of $1.9 trillion, while businesses are holding an estimated USD 6 trillion of cash and equivalents. Businesses remain reluctant to invest because of pessimism about conditions, but consumer confidence is rising. With household deleveraging largely complete, the ratio of debt service payments to personal disposable income is at its lowest level since 1994 and retail sales are strengthening. The housing market is improving, with prices rising 11 months in a row and home sales up sharply. Because of pent-up demand, we expect that home starts will rise 20% both this year and next, and those new homes will require all sorts of spending on durable goods. As confidence builds, this recovery among consumers will give rise to increased business investment to meet this demand.



COUNTRY STATS

President
Barack Obama

Next Elections
November 2016

Nominal GDP (2013)
USD 16.2 tr

Total Trade/GDP (2013)
32%

Exchange Regime
Free float

Canadian Merchandise Exports to the United States (2013)
CAD 317.2 bn

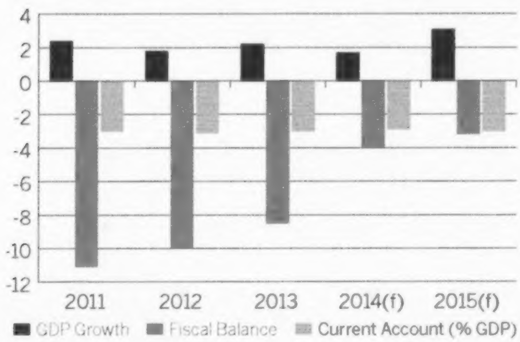
Top Sectors
Energy, Automotive, Ores

Sources: Haver Analytics, Strategis

Risks to the Outlook:

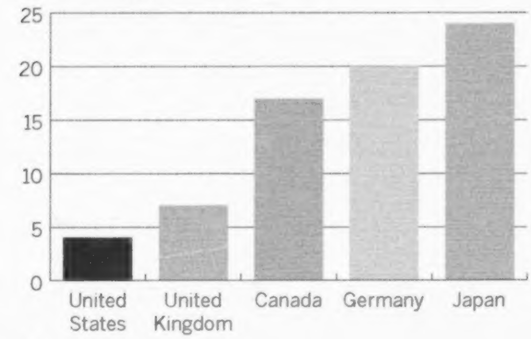
- ▲ US business begins to spend massive cash reserves
- ▼ Prolonged battle over the debt ceiling

Figure 18: United States – Economic Indicators



Sources: Haver Analytics, IMF/WEO, EDC Economics

Figure 19: Ease of Doing Business: Regional Comparison (best=1)



Source: The World Bank

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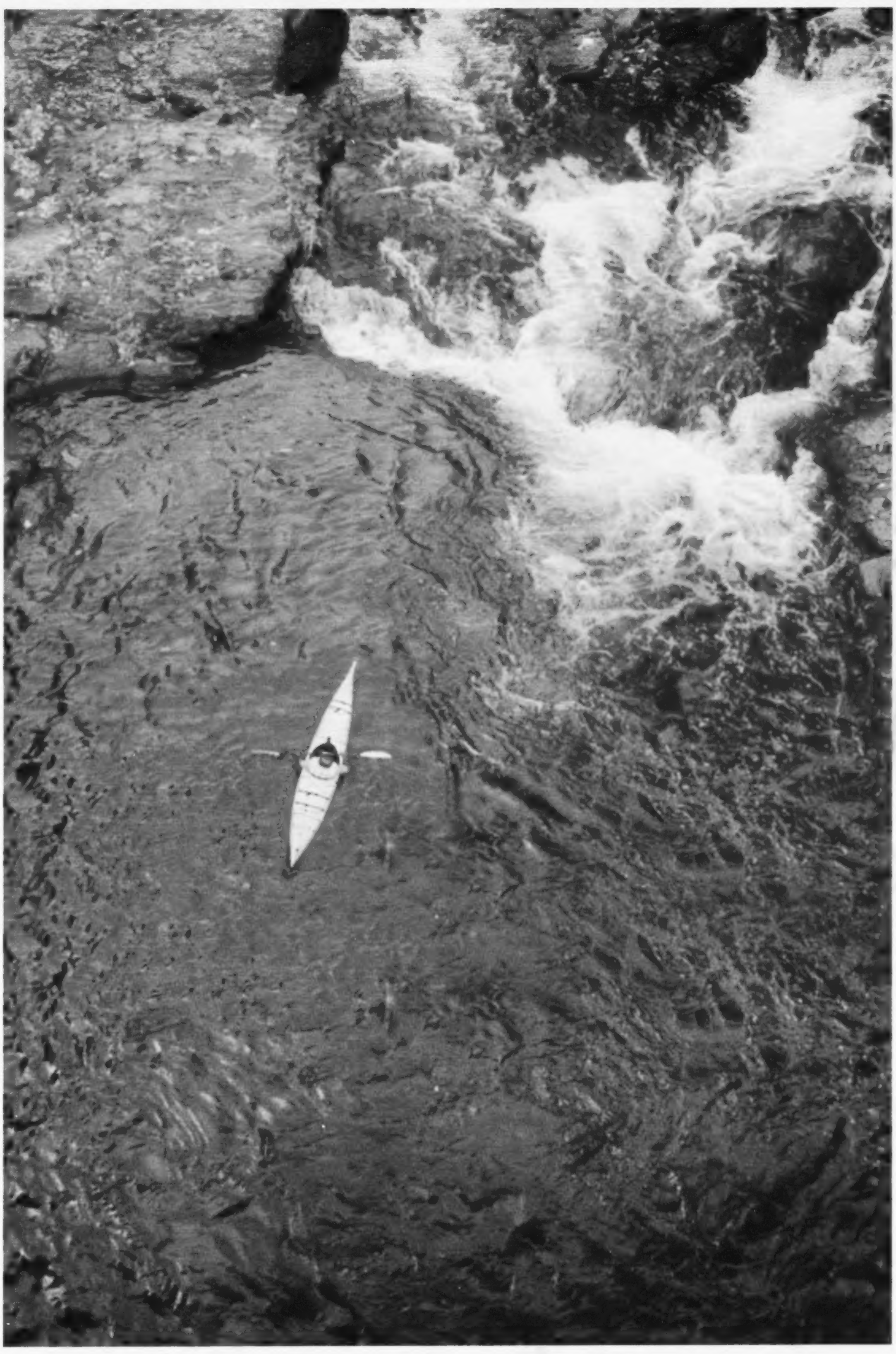

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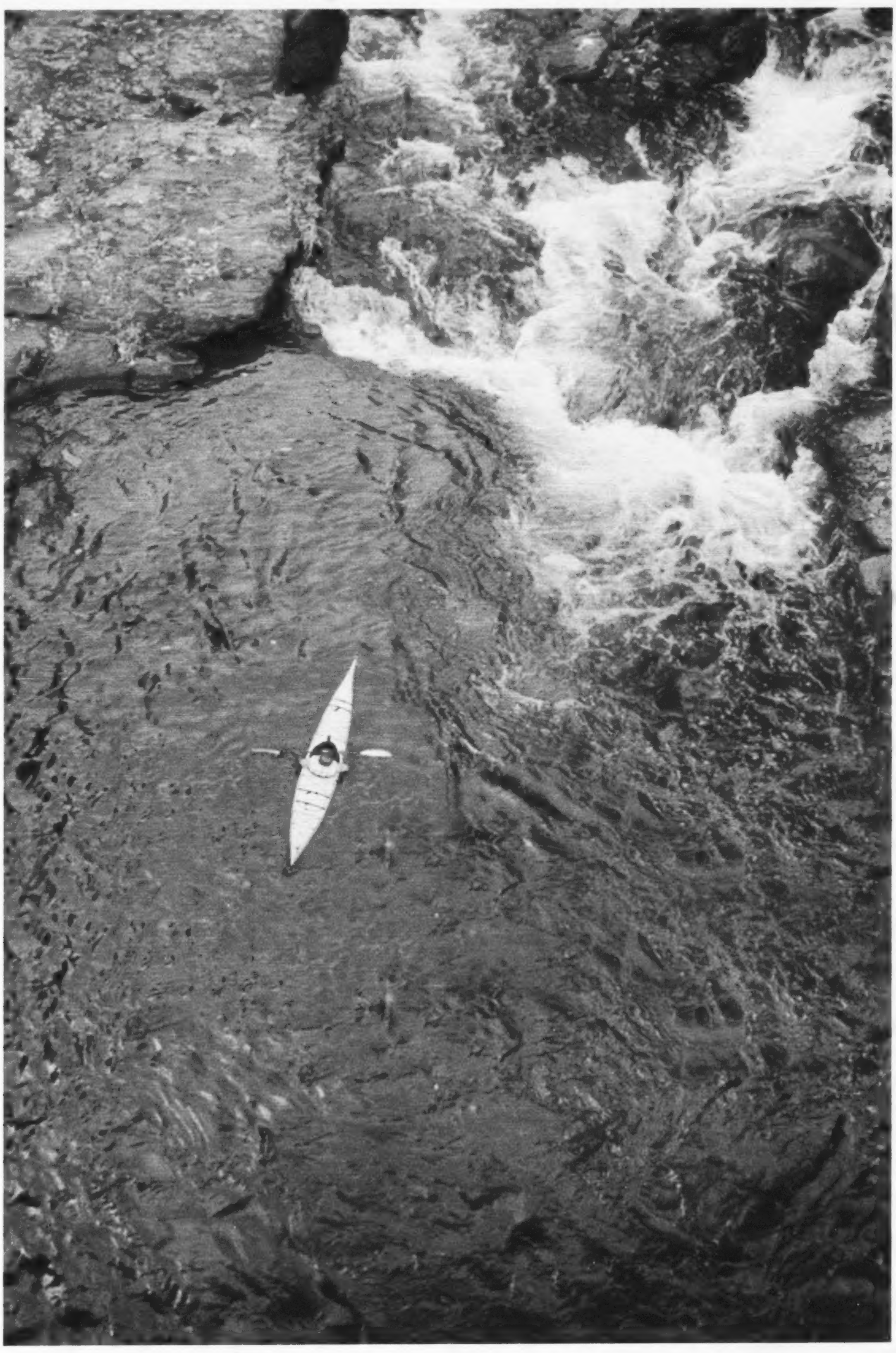

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Canadian exports of goods and services are projected to rise 6% this year and next. The forecast is driven by a significant boost from a weaker Canadian dollar, projected to remain in the 93 cent range over the next 2 years, as well as a sharp pick up in US economic activity that will drive growth next year. This should offset downward pressure from weak commodity prices as oil, metals and agricultural products are headed lower in the years ahead. As a result, export volumes will edge up 2% this year before strengthening to a 6% gain in 2015, as the US economic recovery gathers steam, and as Europe fully emerges from recession. Goods exports should finally recover to pre-crisis levels in 2014, a feat accomplished by the services sector back in 2011.

A number of export sectors will continue to grow significantly but be held back by declining prices, particularly metals and energy. The top performing export sector will be forestry, chalking up double-digit gains this year and next, thanks to US housing starts which are forecast to rise 27% to nearly 1.2 million in 2014 and 1.4 million in 2015, and driving lumber exports into overdrive. Canada's agricultural exports will also outperform, rising 11% this year as Canadian farmers have produced a crop so massive that it is straining Canada's transportation infrastructure. Next year's growth should decline to 3% as production returns to normal.

Canada's energy exports are projected to rise 7% in 2014 driven primarily by gains in crude oil volumes and higher natural gas prices, and then slow to 4% because of lower oil prices and weaker natural gas volumes. The industrial machinery and equipment sector is to increase by 7% this year, but will accelerate to 13% in 2015 as US business investment will pick up when American corporations finally start spending their record cash levels in a resurgent economy. In the transportation sector, aerospace exports will increase by 4% in 2014, before accelerating to 8% next year, while the automotive sector is expected to see gains of 3% in 2014 and 4% next year as capacity constraints are weighing against export growth in this sector.

Merchandise exports to the US are expected to increase by 6% this year and in 2015, while sales to Canada's number two market, Western Europe, will pick up to 4% after a sharp drop in 2013. Sales to emerging markets will see the fastest growth this year, rising 10% before moderating to 6% growth next year primarily due to weaker commodity prices. Thanks to its fast-growing economies, Emerging Asia will lead Canada's export destinations with 11% growth in 2014 and a 7% gain next year. However, Africa and the Middle East will be close behind with gains of 10% and 9%, respectively.

Table 4: Canadian Merchandise Export Forecast by Sector

	CAD bn	% Share of Total Exports	Export Outlook (% growth)		
EXPORT FORECAST OVERVIEW	**2013**	**2013**	**2013**	**2014(f)**	**2015(f)**
Agri-Food	50.3	9.5	5.7	11	3
Energy	123.3	23.3	6.0	7	4
Forestry	29.9	5.6	12.6	12	11
Chemical and Plastics	36.9	7.0	7.2	2	6
Fertilizers	7.7	1.5	-4.9	4	2
Metals, Ores and Other Industrial Products	61.9	11.7	0.0	6	8
Industrial Machinery and Equip.	28.1	5.3	-1.9	7	13
Aircraft and Parts	11.2	2.1	4.1	4	8
Advanced Technology	13.9	2.6	-0.4	5	3
Motor Vehicles and Parts	62.5	11.8	-0.8	3	4
Consumer Goods	8.0	1.5	11.2	3	7
Special Transactions*	3.6	0.7	10.2	8	8
Total Goods Sector	**443.1**	**83.6**	**3.6**	**6**	**6**
Total Service Sector	**86.8**	**16.4**	**3.2**	**3**	**4**
Total Exports	**529.9**	**100.0**	**3.5**	**6**	**6**
Memorandum					
Total Volumes		**100.0**	**1.8**	**2**	**6**
Total Goods Nominal (excl. Energy)	**319.8**	**60.3**	**2.7**	**6**	**7**
Total Goods Nominal (excl. Autos and Energy)	**257.3**	**48.6**	**3.6**	**7**	**7**

Sources: Statistics Canada, EDC Economics. 2013 is actual data while 2014 and 2015 are forecast.

Special transactions* mainly low-valued transactions, value of repairs to equipment and goods returned to country of origin.

3.1 Energy

Canada's energy exports are projected to rise 7% in 2014 driven primarily by gains in crude oil volumes and higher natural gas prices. However, 2015 energy export growth will moderate to 4% overall in spite of rising volumes of oil exports because of lower oil prices and weaker natural gas volumes. Falling coal shipments will drag exports lower this year, but this trend will reverse in 2015.

The price gap between Western Canada Select Crude, the price paid for most Canadian oil compared with West Texas Intermediate, the standard North American price, is expected to average about USD23/bbl this year because of continued capacity constraints and narrow to about USD15/bbl by 2017 as new pipelines come online. Refinery reconfigurations in the US North Mid-West will alleviate some of the pressure to ship crude south to Cushing by end 2014, and by 2017 over 1 mb/d of new pipeline capacity and other transportation modes will significantly ease congestion and narrow the spread considerably. This year EDC expects the value of crude exports to grow 7%, followed by a 4% gain in 2015 due to softer prices. Canadian producers stand to see hefty export gains beginning in 2017 and beyond as most capacity constraints are eliminated.

Natural gas exports are projected to post a hefty 17% increase in 2014, followed by a 0.5% rise in 2015. The performance will be driven entirely by pricing gains and a rise in revenue from the weaker loonie, but next year price gains will be less pronounced. Volumes are on track to decline in both years. Henry Hub prices will average USD4.25/mmbtu in 2014 and rise to USD4.35/mmbtu in 2015. Export volumes will remain constrained by the abundance of cheaper US shale gas that is shutting out some of Canada's higher-cost producers.

Coal exports will decline by 4% as lower prices more than offset rising shipments. However, prices are expected to recover in 2015, which will combine with higher volumes to boost overall coal exports by 12% in 2015. Excessive global supply has hit metallurgical and thermal coal prices, and the industry is busy shutting down higher-cost mine sites, while capacity at lower-cost mines is being ramped up. Overall, supply and demand will be better balanced next year, allowing prices to revive.

SECTOR STATS

International Exports (2013): CAD 123 bn

Share of Sector Exports to Emerging Markets
2009: 3%
2013: 2%

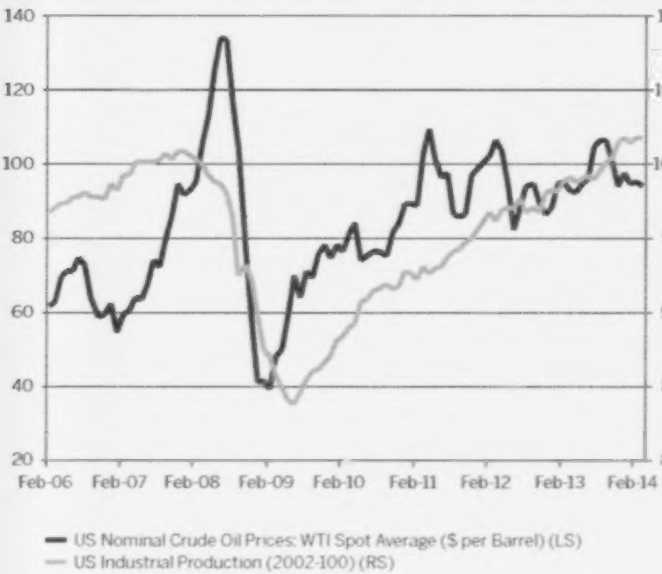
Share of Total Canadian Merchandise Exports (2013): 28%

Sector Distribution Across Provinces:
NL 6.3%
NB 9.1%
NS 0.1%
PE 0.0%
QC 3.3%
ON 3.0%
MN 0.8%
SK 10.2%
AB 59.8%
BC 7.3%

Canadian Direct Investment Abroad: CAD 101.1 bn

Source: Statistics Canada

Figure 20: US Industrial Activity Drives Crude Prices



Sources: Haver Analytics, EIA

Table 5: Energy Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	115.2	93.4	8.7	7	3
Western Europe	2.3	1.9	-24.1	2	1
Japan, Oceania and Developed Asia	2.9	2.4	-12.7	-4	10
Emerging Markets					
Latin America and the Caribbean	0.7	0.6	-39.2	2	7
Emerging Europe and Central Asia	0.2	0.1	-30.3	-3	10
Africa and the Middle East	0.1	0.0	-60.3	9	4
Emerging Asia	2.0	1.6	-16.7	2	14
Total Developed Markets	**120.4**	**97.7**	**7.1**	**7**	**4**
Total Emerging Markets	**2.9**	**2.3**	**-26.0**	**2**	**12**
Total World	**123.3**	**100.0**	**6.0**	**7**	**4**

Sources: Statistics Canada, EDC Economics

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3.2 Ores and Metals

After a disappointingly flat performance last year, exports from the metals ores and industrial goods sectors will rebound; however, growth will be modest in both years as a bearish pricing environment proves a significant counterweight to reviving global demand and production increases. As a result, volume gains will be partly offset by falling prices to generate overall export growth of 6% this year and 8% in 2015.

Whereas 2013's price declines were seen right across the industry, the outlook in the coming years is more nuanced, with fundamental drivers moving each individual metal. The most dramatic movements will be in weaker copper prices, as the global industry continues to ramp up production leaving a substantial surplus in the copper market this year and next. After gold's dramatic tumble in 2013, prices will continue to weaken very gradually. Not until US interest rates begin to increase, expected in 2016, will we see gold prices weaken severely. For the iron ore industry, oversupply is projected in 2016 which will be accompanied by a sharp fall in prices, but over the next 2 years, firm demand and industry costs will keep prices at current levels. Aluminum and nickel prices will buck the trend and increase in 2014 before levelling off in 2015. For both metals, high input costs and disruptions in global supply will leave their respective markets in deficit over the forecast horizon.

Despite this lacklustre pricing environment, Canadian producers will benefit from a weaker loonie and growing global demand for industrial goods. Almost all subsectors will see an increase in volume sales this year. An exception is the aluminum industry, where the closure of the Shawinigan smelter will dampen output this year before the Kitimat smelter ramps up to full production next year. However, in 2015, performances will vary with iron ore and aluminum sales gaining but most other metals decreasing slightly.

SECTOR STATS

International Exports (2013):
CAD 67.8 bn

Share of Sector Exports to Emerging Markets
2009: 13%
2013: 13%

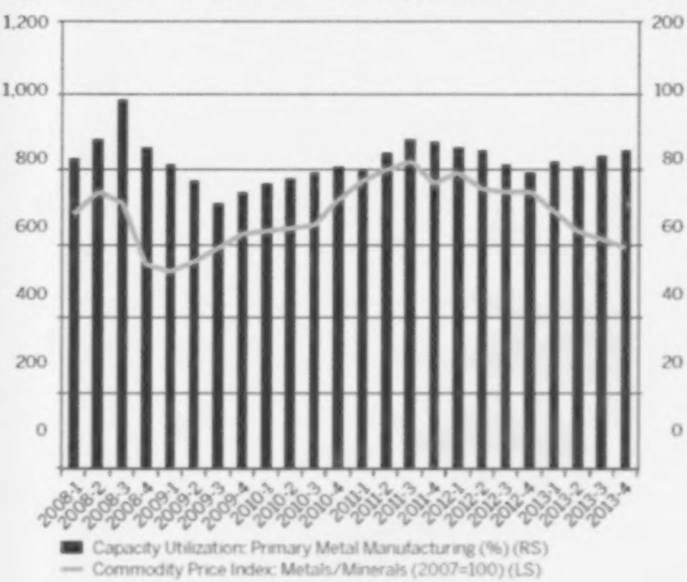
Share of Total Canadian Merchandise Exports (2013):
15%

Sector Distribution Across Provinces:
NL 2.5%
NB 0.9%
NS 0.5%
PE 0.1%
QC 21.3%
ON 49.7%
MN 2.5%
SK 6.5%
AB 8.6%
BC 5.7%

Canadian Direct Investment Abroad: CAD 58.6 bn

Source: Statistics Canada

Figure 21: Metals and Mining: Quarterly Pricing and Activity



Source: Haver Analytics

Table 6: Ores and Metals Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	31.3	50.6	1.9	3	10
Western Europe	15.8	25.6	-19.1	8	9
Japan, Oceania and Developed Asia	6.7	10.8	61.4	8	5
Emerging Markets					
Latin America and the Caribbean	1.3	2.0	-17.7	8	6
Emerging Europe and Central Asia	0.5	0.8	-1.2	3	3
Africa and the Middle East	1.0	1.6	52.7	6	13
Emerging Asia	5.3	8.6	10.6	9	1
Total Developed Markets	**53.8**	**86.9**	**-1.1**	**5**	**9**
Total Emerging Markets	**8.1**	**13.1**	**7.8**	**8**	**3**
Total World	**61.9**	**100.0**	**0.0**	**6**	**8**

Sources: Statistics Canada, EDC Economics

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3.3 Agri-Food

Canada's agricultural and food exports will rise by 11% in 2014 as a bumper crop pushes production to record levels. Next year will see 3% growth as production returns to normal and prices edge down. Almost everyone was surprised by the 2013-14 bonanza: Canada's farmers produced 27% more grains and oilseeds for the crop year, a staggering 90.1 million tonnes. This was largely because of ideal weather conditions, which led to much higher yields in spite of late seeding. The big challenge for agricultural exporters will be in transportation: as of February 2014, Canada's inventories of grains were at an all-time high, more than 40% above last year, but the backlog in the rail system should be mostly cleared by end-2014.

Global grain markets are returning to balance as supply has finally caught up to demand and, as a result, grain prices will retreat from their soaring heights, pushing down farm receipts. Years of sustained high prices have pushed up global production and investment in spite of extreme weather conditions in certain areas. The demand outlook will also remain positive, supported by strong emerging market consumption alongside moderate growth in the use of grains in biofuels. Meat exports should see modest gains this year and next, boosted by stronger pricing alongside lower cost of feed.

The improving outlook for the US consumer, with rising confidence and stronger retail sales, has been great news for the Canadian food industry. American consumers will spend more on higher-margin items at grocery stores and restaurants. Canada's exports of processed food and beverages are expected to rise 5% this year and a further 6% in 2015, impressive for a $11-billion industry that is used to fluctuations in the 2 to 3% range. A more confident US consumer will also boost seafood exports, which should see a 5% rise this year supported by the weaker Canadian dollar and rising demand from China.

SECTOR STATS

International Exports (2013):
CAD 50.3 bn

Share of Sector Exports to Emerging Markets
2009: 30%
2013: 31%

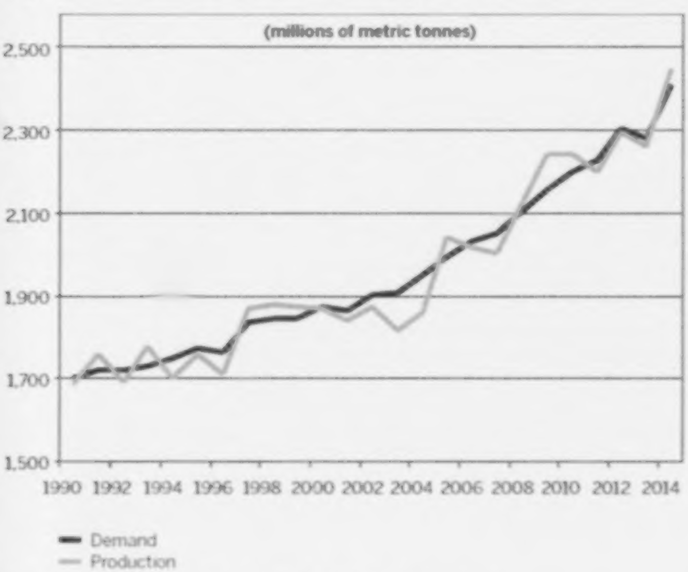
Share of Total Canadian Merchandise Exports (2013):
11%

Sector Distribution Across Provinces:
NL 1.7%
NB 3.0%
NS 2.5%
PE 1.1%
QC 12.8%
ON 22.5%
MN 8.3%
SK 23.4%
AB 19.2%
BC 5.7%

Canadian Direct Investment Abroad: CAD 15.6 bn

Source: Statistics Canada

Figure 22: Global Grain Production Catching Up with Demand



Source: USDA World Agriculture Supply and Demand Estimates

Table 7: Agri-Food Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	25.9	51.6	10.4	9	4
Western Europe	2.7	5.4	-1.5	8	-2
Japan, Oceania and Developed Asia	6.1	12.1	-1.2	11	2
Emerging Markets					
Latin America and the Caribbean	3.8	7.6	6.9	12	-3
Emerging Europe and Central Asia	1.0	1.9	-5.5	15	5
Africa and the Middle East	2.4	4.7	-14.0	11	4
Emerging Asia	8.4	16.6	7.0	19	6
Total Developed Markets	**34.7**	**69.1**	**7.2**	**9**	**3**
Total Emerging Markets	**15.5**	**30.9**	**2.3**	**16**	**3**
Total World	**50.3**	**100.0**	**5.7**	**11**	**3**

Sources: Statistics Canada, EDC Economics

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3.4 Fertilizers

Canada's fertilizer exports will rise 4% this year and level off to 2% through 2015 following last year's rebound in potash exports to key markets. Potash prices, which plummeted last year due to the breakup of the Russian-Belarus potash marketing partnership, will remain flat because of oversupply in the market and softer crop prices. However, a reconstitution of the Russian-Belarus potash partnership could also lead to some price improvements over the medium term.

Even though still high in terms of historical levels, US farm income and acreage will both decline in 2014 and 2015 due to weakening crop prices, and this will dampen demand for fertilizer exports to the US. However, there is upside potential for demand to pick up on the back of lower potash prices as dealers restock inventories, which are at low levels due to just-in-time systems. Logistical bottlenecks can pose downside risks to export of nitrogen-based fertilizer to the US this year. Export of potash to Brazil, a bright spot, is expected to stay stable at record-high levels, but is unlikely to register massive year-on-year growth.

Total potash exports to South East Asia, including Indonesia and Malaysia, will once again outpace exports to China and India combined. Over the medium-long term, potential for potash demand continues to be bright in Emerging Asia and especially India due to chronic under-application of crop nutrients. As industrial farming takes hold in these markets, demand for crop nutrients, including potash, should increase. However, constraints on government finances, a weak Indian rupee and proposed cuts to potash subsidies will result in lacklustre exports into India in 2014 and 2015. Despite the recent moderation in exports to China, demand should pick up over the medium-long term given limited domestic capacity.

SECTOR STATS

International Exports (2013): CAD 7.7 bn

Share of Sector Exports to Emerging Markets
2009: 25%
2013: 33%

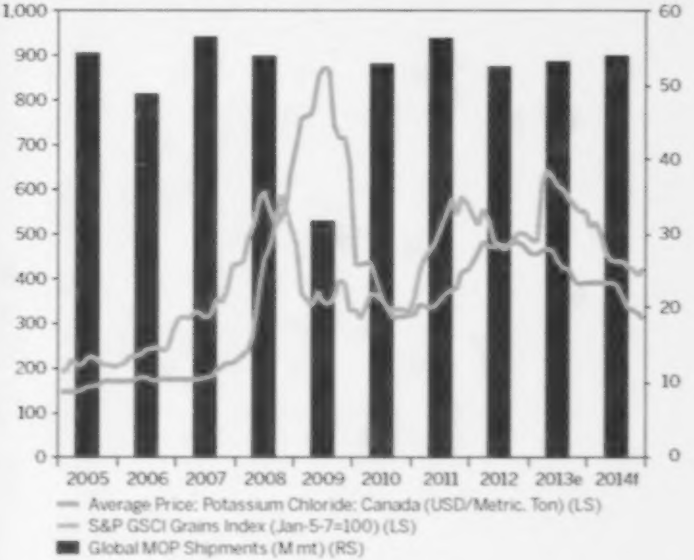
Share of Total Canadian Merchandise Exports (2013): 2%

Sector Distribution Across Provinces:
NL 0.0%
NB 3.9%
NS 0.0%
PE 0.0%
QC 0.2%
ON 4.7%
MN 1.8%
SK 72.6%
AB 15.9%
BC 0.8%

Canadian Direct Investment Abroad: N/A

Source: Statistics Canada

Figure 23: Stabilizing After the Turmoil



Sources: Haver Analytics, Bloomberg Green Markets, EDC Economics

Table 8: Fertilizers Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	5.1	65.5	-4.7	4	2
Western Europe	0.0	0.5	-43.5	5	1
Japan, Oceania and Developed Asia	0.0	0.6	-55.2	5	3
Emerging Markets					
Latin America and the Caribbean	0.9	11.6	-6.1	3	0
Emerging Europe and Central Asia	0.0	0.0	-14.2	5	1
Africa and the Middle East	0.0	0.1	-8.7	6	2
Emerging Asia	1.7	21.8	-0.3	2	5
Total Developed Markets	**5.1**	**66.6**	**-6.1**	**4**	**2**
Total Emerging Markets	**2.6**	**33.4**	**-2.4**	**2**	**3**
Total World	**7.7**	**100.0**	**-4.9**	**4**	**2**

Sources: Statistics Canada, EDC Economics

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3.5 Forestry Products

The strengthening recovery in the US housing sector and rising lumber demand from China are expected to sustain a remarkable boom in Canadian lumber exports. Meanwhile, pulp and paper shipments will receive a boost due largely to the weakness in the Canadian dollar. Overall, total forestry exports are forecast to grow by 12% in 2014 and 11% in 2015.

For the first time since 2008, housing starts in the US are forecast to break the 1 million mark, reaching nearly 1.2 million in 2014 and 1.4 million in 2015. With demand from China growing by 6% in 2013 for construction-related wood products, the outlook for Canadian lumber products is robust. This has resulted in a number of producers that have reopened shuttered mills and begun new investments, including Resolute expanding capacity at mills in Ontario and Quebec in 2014 and Tolko starting sales from its Athabasca plant near Slave Lake, Alberta.

While demand for lumber products is expected to be robust, fibre supply constraints from damage caused by the mountain pine beetle are starting to hit the forest sector in British Columbia. Mills in Houston and Quesnel, British Columbia, are expected to close by mid-2014 due to a lack of timber supply. More closings are expected in the medium term which will reduce the volume of British Columbia's lumber exports, but increase prices, just as demand is growing.

Pulp and paper exports are expected to benefit from a softer Canadian dollar in 2014. However, there is significant excess capacity worldwide for many forms of pulp, so growth will be subdued even as demand from China increases.

As the shift toward digital media leads to declining paper demand in advanced economies, many producers are investing in new technologies to increase efficiency of their current plants. An excellent example of this is Tembec's $235-million 2014-15 investment program to increase efficiency at its Temiscaming, Quebec, pulp mill.

SECTOR STATS

International Exports (2013):
CAD 29.9 bn

Share of Sector Exports to Emerging Markets
2009: 15%
2013: 23%

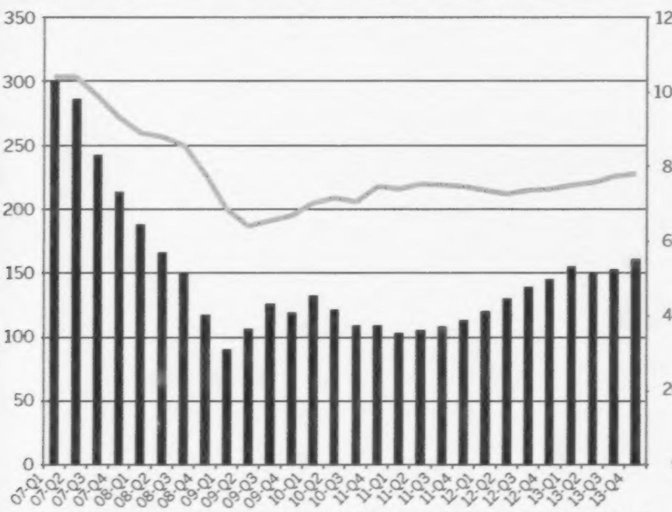
Share of Total Canadian Merchandise Exports (2013):
7%

Sector Distribution Across Provinces:
NL 0.5%
NB 5.5%
NS 1.5%
PE 0.0%
QC 27.0%
ON 16.3%
MN 1.6%
SK 1.4%
AB 8.1%
BC 38.2%

Canadian Direct Investment Abroad: CAD 9.0 bn

Source: Statistics Canada

Figure 24: Stronger Recovery in US Housing Crucial for Lumber Exports



US Quarterly Housing Starts: 1 Unit Structures (NSA, Thou. Units) - SA (LS)
Canada BOP Exp Laspeyre Vol Idx: Forestry Prod/Bldg/Packaging Mat (RS) (SA, 2007=100)

Source: Haver Analytics

Table 9: Forestry Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	19.2	64.3	13.3	14	11
Western Europe	1.1	3.6	-2.2	-8	0
Japan, Oceania and Developed Asia	2.6	8.6	9.7	7	10
Emerging Markets					
Latin America and the Caribbean	0.8	2.6	0.3	1	3
Emerging Europe and Central Asia	0.3	0.9	31.9	6	8
Africa and the Middle East	0.3	1.0	21.5	22	18
Emerging Asia	5.7	18.9	15.7	12	12
Total Developed Markets	**22.8**	**77**	**12.0**	**12**	**10**
Total Emerging Markets	**7.0**	**23**	**14.6**	**11**	**11**
Total World	**29.9**	**100**	**12.6**	**12**	**11**

Sources: Statistics Canada, EDC Economics

3.6 Automotive

Canadian automotive exports will climb by a modest 3% in 2014 followed by a 4% gain in 2015. A booming recovery is underway in the US, with auto sales expected to reach well over 16 million in 2014 and potentially climbing to 18 million by 2018. Consumer credit is much more available, personal debt is way down, and more cars are in need of replacement. So far, all this has been beneficial to factories in Mexico and the southern United States, but is scarcely showing up in Canadian export numbers.

Despite the robust demand outlook for the US, capacity constraints will limit Canadian export growth over the forecast horizon, and Canada's share of North American manufacturing is declining. Investment in the Canadian auto sector has lagged the rest of North America, with many manufacturers citing the high cost of producing in Canada. The decline in the Canadian dollar should provide some relief, but the dollar is forecast to average 93 cents for 2014 and 2015, and this is not enough to change the short-term outlook.

The auto industry is modernizing and improving efficiency rather than increasing capacity. Ford is investing $800 million to retool its assembly plant in Oakville to improve manufacturing capability and allow the plant to produce new models. GM's $250-million investment in its CAMI plant in Ingersoll will enhance flexibility and tooling capabilities in support of a broader range of models. Toyota is investing $100 million to expand production of its Lexus model by 30,000 units.

Part suppliers are benefiting from ramped-up vehicle production in the US; however, the industry is currently operating at capacity, and growth rates are slow this year in line with original equipment manufacturer (OEM) activity. Many new investments in parts manufacturing are concentrated in Mexico and the southern US, in order to co-locate near top OEMs. This will dampen exports over the medium term, but will provide opportunities for Canadian Direct Investment Abroad.

SECTOR STATS

International Exports (2013):
CAD 62 bn

Share of Sector Exports to Emerging Markets
2009: 2.8%
2013: 2.8%

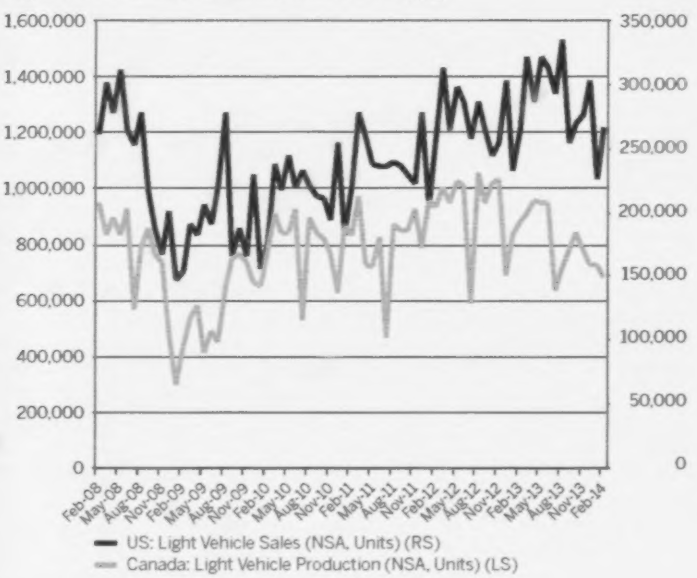
Share of Total Canadian Merchandise Exports (2013):
14%

Sector Distribution Across Provinces:
NL 0.0%
NB 0.0%
NS 1.7%
PE 0.0%
QC 3.6%
ON 92.8%
MN 0.9%
SK 0.1%
AB 0.5%
BC 0.5%

Canadian Direct Investment Abroad: CAD 26.0 bn

Source: Statistics Canada

Figure 25: US Vehicle Sales and Canadian Supply



Source: Haver Analytics

Table 10: Automotive Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	60.4	96.6	-1.2	2	2
Western Europe	0.2	0.4	-9.4	3	8
Japan, Oceania and Developed Asia	0.1	0.2	-15.7	5	4
Emerging Markets					
Latin America and the Caribbean	0.9	1.4	4.7	13	8
Emerging Europe and Central Asia	0.1	0.1	6.3	6	8
Africa and the Middle East	0.5	0.9	31.7	12	9
Emerging Asia	0.2	0.4	107.6	28	9
Total Developed Markets	**60.8**	**97.2**	**-1.3**	**2**	**4**
Total Emerging Markets	**1.7**	**2.8**	**20.3**	**14**	**8**
Total World	**62.5**	**100.0**	**-0.8**	**3**	**4**

Sources: Statistics Canada, EDC Economics

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3.7 Industrial Machinery and Equipment

Exports of industrial machinery and equipment (M&E) contracted slightly last year; however, the sector is poised for a return to healthy growth rates of 7% this year and another 13% in 2015 as the global economy gains strength and investment increases. Different subsectors continue to face widely varying demand conditions; however, all subsectors will enjoy positive growth over the next 2 years. Construction and agricultural M&E will continue to be the star performers, while mining and oil and gas will remain soft.

Exports of agricultural M&E will accelerate to 6% growth this year and 8% in 2015. Although agricultural commodity prices will retreat from record highs, they will still remain well above historical averages thereby providing producers strong incentive to continue investing.

Metals and woodworking machinery will, once again, be the star performer in 2014 with growth holding steady at 16% before moderating to 10% in 2015. The US housing sector is in the midst of a healthy recovery, and housing starts are projected to grow 27% this year and another 19% next year. The major export destinations will continue to be dominated by developed markets with strong growth in the US and Mexico offsetting weakness from Europe.

Sales of mining and oil and gas M&E are slated for a gentle 3% recovery in 2014, followed by a more robust 9% gain in 2015. US natural gas investments have levelled off, while the mining sector and metals fabrication is troubled with overcapacity and falling prices. As a result, 2014 will be a year of hesitant investments followed by more promise in 2015, but overall the emerging markets will lead the gains in M&E investment in mining and oil and gas. Finally, shipments of rubber and plastics M&E will maintain moderate growth in 2014, expanding by 8% this year and accelerating to 10% in 2015 on rising investment demand, mainly in the US.

SECTOR STATS

International Exports (2013):
CAD 28.1 bn

Share of Sector Exports to Emerging Markets
2009: 19%
2013: 17%

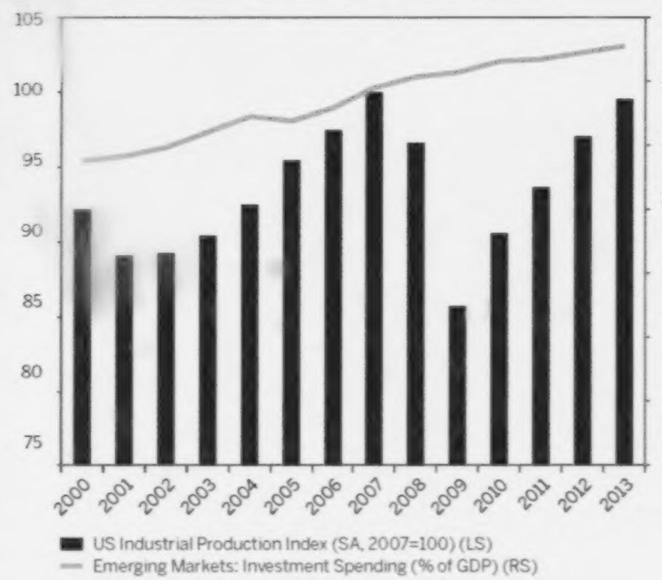
Share of Total Canadian Merchandise Exports (2013):
6%

Sector Distribution Across Provinces:
NL 0.1%
NB 0.7%
NS 0.8%
PE 0.2%
QC 22.2%
ON 52.7%
MN 3.7%
SK 2.0%
AB 11.1%
BC 6.5%

Canadian Direct Investment Abroad: CAD 4.5 bn

Source: Statistics Canada

Figure 26: Demand Indicators for Machinery and Equipment



Source: Haver Analytics

Table 11: Industrial Machinery and Equipment Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	19.8	70.4	1.4	8	14
Western Europe	2.2	7.9	1.0	3	8
Japan, Oceania and Developed Asia	1.3	4.7	-3.7	3	6
Emerging Markets					
Latin America and the Caribbean	1.5	5.3	-12.8	8	10
Emerging Europe and Central Asia	0.8	2.9	-16.4	-3	10
Africa and the Middle East	1.2	4.1	-23.3	8	12
Emerging Asia	1.3	4.7	-3.9	8	10
Total Developed Markets	**23**	**83**	**1.0**	**8**	**13**
Total Emerging Markets	**4.8**	**17**	**-14.1**	**6**	**11**
Total World	**28**	**100**	**-1.9**	**7**	**13**

Sources: Statistics Canada, EDC Economics

3.8 Advanced Technology

Advanced technology exports are expected to rise by 5% this year before edging down by 3% next year. Export volumes to developed markets are growing moderately overall in spite of increasing competition, and there is a continued trend to shift manufacturing to lower-cost economies. The sector is experiencing a shift to non-traditional segments such as measurement instruments while reducing the impact of the ailing wireless communications sector. Export shares are growing in several subsectors such as electrical components and measuring and testing devices, presenting significant opportunities for Canadian companies.

Despite rising consumer spending and increasing corporate investment in network upgrades, exports to the US have been uneven throughout the technology subsectors. Overall exports will mainly see growth due to the weakening CAD. Sales to Europe, Canada's number two market, will remain suppressed due to bearish economic activity in the region. Meanwhile, shipments to Asia are well positioned for rapid growth over the medium term where wireless subscribers are growing at exponential rates; estimates show that India and China combined are adding 75 million new wireless subscribers per quarter. While emerging markets are expected to be the fastest-growing destination for Canadian telecommunications exports, the US will remain by far the most important market for Canadian telecoms for many years, outpacing gains in emerging markets.

In 2014, exports of consumer electronics should continue to benefit from a positive outlook for US housing starts (up 27%) and renovations. But market saturation in the US will cause firms to begin shifting focus toward regions experiencing strong consumer demand with lower market penetration, such as Latin America and Asia. Exports of the navigational and measuring instrument subsector have consistently increased their share of Canadian exports, representing almost 25% of total exports in the advanced technology sector. Medical and measuring instruments have experienced the highest levels of growth in the sector, most of which are heading to the US; however, Asia will remain a region of growth.

SECTOR STATS

International Exports (2013):
CAD 14 bn

Share of Sector Exports to Emerging Markets
2009: 14%
2013: 16%

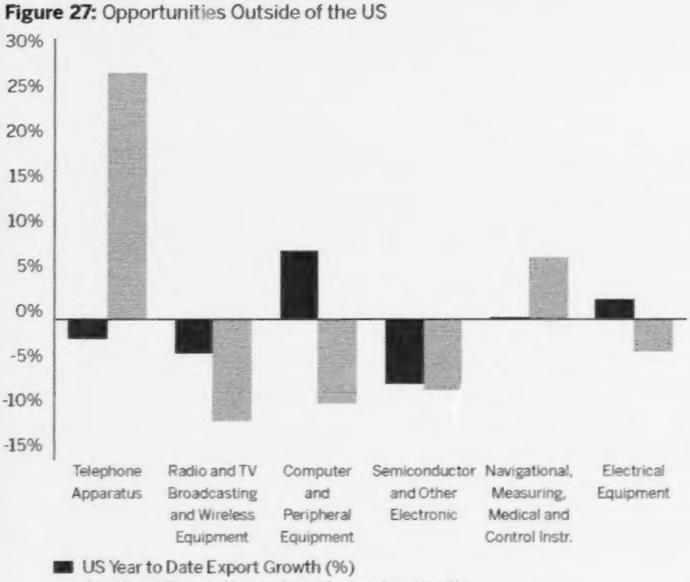
Share of Total Canadian Merchandise Exports (2013):
3%

Sector Distribution Across Provinces:
NL 0.1%
NB 0.3%
NS 1.1%
PE 0.1%
QC 25.8%
ON 55.6%
MN 2.0%
SK 1.0%
AB 6.1%
BC 7.8%

Canadian Direct Investment Abroad: CAD 22.1 bn

Source: Statistics Canada

Figure 27: Opportunities Outside of the US



Source: Statistics Canada

Table 12: Advanced Technology Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	9.3	67.1	0.1	4	3
Western Europe	1.5	10.7	-10.3	0	-1
Japan, Oceania and Developed Asia	0.9	6.5	-2.1	11	3
Emerging Markets					
Latin America and the Caribbean	0.7	4.8	8.0	9	8
Emerging Europe and Central Asia	0.3	1.9	-6.7	11	9
Africa and the Middle East	0.4	3.2	12.6	12	9
Emerging Asia	0.8	5.7	5.4	7	4
Total Developed Markets	**11.7**	**84.3**	**-1.5**	**4**	**3**
Total Emerging Markets	**2.2**	**15.7**	**5.9**	**9**	**7**
Total World	**13.9**	**100.0**	**-0.4**	**5**	**3**

Sources: Statistics Canada, EDC Economics

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3.9 Aerospace

Aerospace exports are expected to grow by 4% in 2014 and 8% next year as global growth accelerates. Airline capacity will tighten significantly as demand for air travel increases while aircraft investment is still lagging after years of weakness in the wake of the global financial crisis.

With stronger economic growth and rising incomes increasing the affordability of air travel, sales to emerging markets are expected to be strong in 2014. In developed economies, growth will pick up as the US economy gains strength and the Eurozone returns to growth. In addition, private financing conditions are vastly improved while high jet fuel prices are motivating carriers to invest in more efficient fleets. All of this is expected to deliver a major boost to aerospace demand in the coming years.

Aircraft production capacity is extremely tight with the major manufacturers' order backlog of units at an all-time high. Bombardier reported nearly $38 billion in order backlogs, while testing of the new CSeries line continues. With CSeries planes expected to enter service in 2015, demand for the new plane combined with elevated jet fuel prices and high industry load factor rates should increase order activity through 2014 and into 2015.

The market for business jets continues to recover, though it remains below pre-recession levels as corporations remain focused on administrative costs. However, the order of 20 Challenger 350 jets for the first half of 2014 by VistaJet as well as a firm order of 85 business aircraft by Flexjet will provide a welcome boost to Bombardier's international sales. The development and entry into service of Bombardier's Learjet 85, expected in the early part of 2015, will also support a positive outlook.

Demand for aircraft parts and simulators is expected to post impressive growth supported by rising air travel in emerging markets and the delivery of newer and more technologically advanced aircraft.

SECTOR STATS

International Exports (2013):
CAD 11.2bn

Share of Sector Exports to Emerging Markets
2009: 11%
2013: 17%

Share of Total Canadian Merchandise Exports (2013):
3%

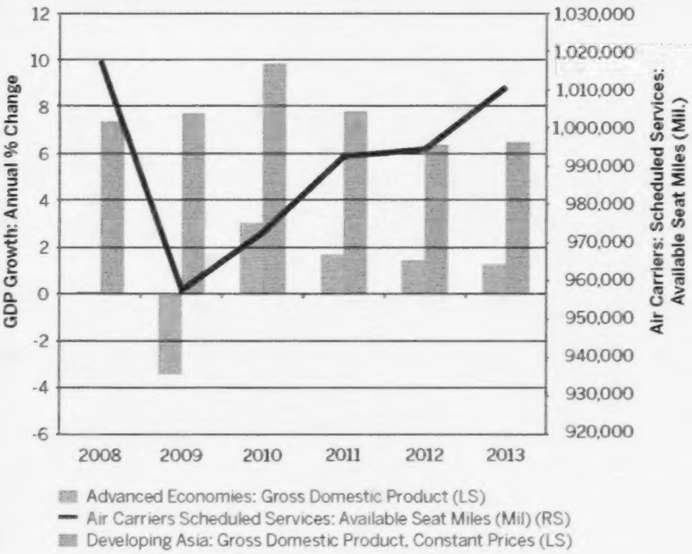
Sector Distribution Across Provinces:

NL	2.4%
NB	0.1%
NS	0.5%
PE	0.6%
QC	59.0%
ON	29.6%
MN	4.3%
SK	0.0%
AB	1.3%
BC	2.2%

Canadian Direct Investment Abroad: CAD 26.0 bn

Source: Statistics Canada

Figure 28: Passenger Service and Aircraft Demand Growing with the Recovery



Sources: Haver Analytics, International Air Transport Association, IMF/WEO

Table 13: Aerospace Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	6.8	61.1	11.5	6	9
Western Europe	1.9	16.9	-12.0	-12	-4
Japan, Oceania and Developed Asia	0.5	4.7	55.7	-23	-16
Emerging Markets					
Latin America and the Caribbean	0.3	3.1	52.7	17	7
Emerging Europe and Central Asia	0.5	4.1	33.2	17	8
Africa and the Middle East	0.3	2.7	-59.6	26	13
Emerging Asia	0.8	7.5	2.1	-16	-11
Total Developed Markets	**9.3**	**82.7**	**7.4**	**1**	**7**
Total Emerging Markets	**1.9**	**17.3**	**-9.2**	**18**	**10**
Total World	**11.2**	**100.0**	**4.1**	**4**	**8**

Sources: Statistics Canada, EDC Economics

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3.10 Chemicals and Plastics

Canada's exports of chemicals and plastics will moderate in 2014, growing by 2% and getting a 6% boost in 2015. As Canadian capacity will remain fairly stable over the next 2 years, the forecast is guided by commodity prices and the outlook for international demand, particularly in the US, which is the destination for 80% of total shipments. Generally, volumes in the sector will remain relatively stagnant over the short term as companies continue to focus on cost reduction.

Petrochemical exports have taken a surprisingly positive turn as shipments to the US and China return to near pre-crisis levels. As prices remain relatively weak over the forecast horizon in tandem with the price of crude oil, the growth driver will be higher volumes to the US as manufacturing ramps up. The key challenge for the industry is tough competition in the US as booming production of cheap shale gas is driving a surge in petrochemicals south of the border, which is pushing down prices. We expect Canadian companies will continue to shift toward natural gas feedstock and diversify their petrochemical product mix. However, capacity utilization and labour constraints will continue to restrain growth. On the upside, over the medium-long term, potential expansions could boost production of petrochemicals. Overall, Canada's chemical exports should bearishly rise by 1% this year but will get a 9% boost in 2015.

Exports of plastics will expand by 3% this year before falling to zero growth next year. Volumes remain in line with our bullish outlook for the US economy and consumer demand, which is partially driven by a jump in housing starts of 27% this year and a projected 19% increase for 2015. The packaging industry is also expected to continue benefiting from rising exports to the US as healthy consumer demand is boosting retail sales. Investing in R&D to develop environmentally friendly production methods will be a major growth opportunity for the sector.

SECTOR STATS

International Exports (2013):
CAD 37 bn

Share of Sector Exports to Emerging Markets
2009: 8%
2013: 10%

Share of Total Canadian Merchandise Exports (2013):
8%

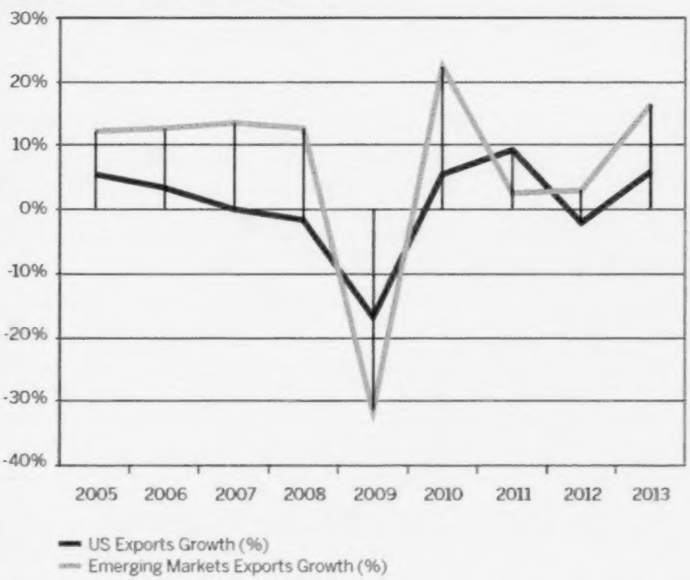
Sector Distribution Across Provinces:

NL	0.0%
NB	0.3%
NS	0.9%
PE	0.1%
QC	18.7%
ON	54.7%
MN	2.8%
SK	2.0%
AB	17.0%
BC	3.4%

Canadian Direct Investment Abroad: CAD 17.87 bn

Source: Statistics Canada

Figure 29: Emerging Market Growth Surpassing US



Sources: Statistics Canada, EDC Economics

Table 14: Chemicals and Plastics Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	29.0	78.6	6.0	1	7
Western Europe	3.1	8.4	14.5	10	2
Japan, Oceania and Developed Asia	1.0	2.8	-6.8	0	3
Emerging Markets					
Latin America and the Caribbean	1.3	3.6	9.7	-1	3
Emerging Europe and Central Asia	0.2	0.6	22.3	1	3
Africa and the Middle East	0.3	0.9	-8.6	1	3
Emerging Asia	1.9	5.1	27.8	0	4
Total Developed Markets	**33.2**	**89.8**	**6.3**	**2**	**7**
Total Emerging Markets	**3.8**	**10.2**	**16.5**	**0**	**3**
Total World	**36.9**	**100.0**	**7.2**	**2**	**6**

Sources: Statistics Canada, EDC Economics

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3.11 Consumer Goods

Exports of consumer goods will increase by 3% this year and 7% in 2015. This sector is made up of a very diverse group of categories, but over 80% of shipments will go to the US, and with the American economy fully in recovery mode, the outlook for consumer goods is positive.

Despite the decline in precious metal prices, jewellery and silverware exports took off last year, growing by 35%. Given that much of this rise was attributed to a record volume of coins and bullion sold by the Royal Canadian Mint, we expect demand to taper off this year and next.

US housing starts are expected to increase by 27% this year, but the spillover into housing-related consumer goods has yet to take hold and exports from this sector will be modest. Furniture, kitchen cabinets and other consumer durables have historically tracked closely with housing starts, though this correlation has not been as strong in recent years. Nevertheless, with over 90% of housing-related exports going to the US, the recovering real estate market will drive this subsector.

Clothing exports will continue to decline modestly, part of a long-term trend that has characterized the industry as it shifts toward fashion and design with manufacturing overseas. One area that might present opportunities for the Canadian apparel industry is the growth of e-commerce in the US. Finally, in the other consumer goods category, medical equipment and supplies manufacturing continues to show solid growth.

While the US and European markets continue to absorb the bulk of these exports, we expect that over the longer term, the fastest growth in the consumer goods sector will increasingly come from Emerging Asia and Latin America.

SECTOR STATS

International Exports (2013):
CAD 8.0 bn

Share of Sector Exports to Emerging Markets
2009: 5%
2013: 4%

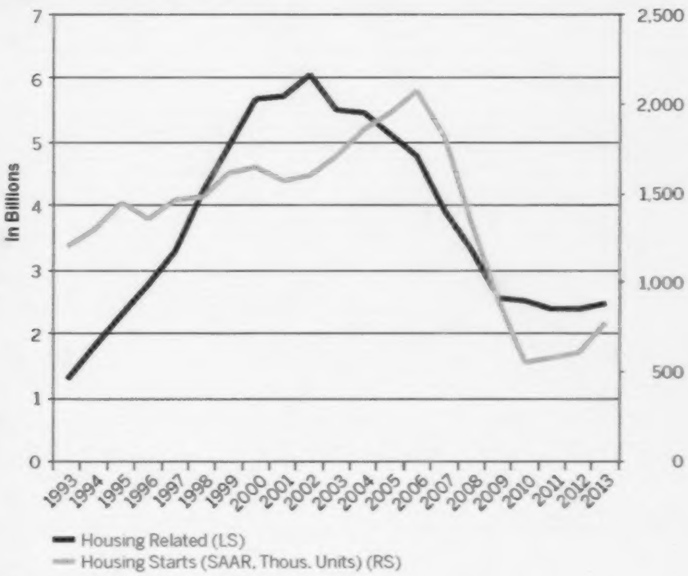
Share of Total Canadian Merchandise Exports (2013):
2%

Sector Distribution Across Provinces:
NL 0.1%
NB 0.2%
NS 0.9%
PE 0.0%
QC 31.9%
ON 54.2%
MN 2.4%
SK 0.2%
AB 1.9%
BC 8.1%

Canadian Direct Investment Abroad: CAD 9.7 bn

Source: Statistics Canada

Figure 30: Housing-Related Exports



Sources: Statistics Canada, Industry Canada

Table 15: Consumer Goods Export Outlook by Region

TOP MARKETS	CAD bn 2013	% Share of Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Developed Markets					
United States	6.1	76.8	10.4	7	6
Western Europe	1.2	15.1	21.7	-16	-7
Japan, Oceania and Developed Asia	0.3	4.2	13.1	2	2
Emerging Markets					
Latin America and the Caribbean	0.1	1.0	-9.8	2	2
Emerging Europe and Central Asia	0.0	0.6	0.4	-9	2
Africa and the Middle East	0.1	1.2	0.7	2	2
Emerging Asia	0.1	1.1	-16.2	5	3
Total Developed Markets	**7.7**	**96.1**	**12.2**	**3**	**7**
Total Emerging Markets	**0.3**	**3.9**	**-7.5**	**1**	**2**
Total World	**8.0**	**100.0**	**11.2**	**3**	**7**

Sources: Statistics Canada, EDC Economics

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3.12 Services

The weaker Canadian dollar, projected to average 93 cents this year and next, will provide a healthy boost to Canadian services exports. The direct effects include higher Canadian dollar revenues for services priced in US dollars and making Canada a more attractive tourist destination for foreigners, while the indirect effects are mainly the service contracts associated with merchandise trade as well as increased competitiveness. Overall services exports will grow 3% in 2014 and then pick up to 4% growth next year.

Very strong gains in the travel segment are projected over the next 2 years. The sector includes business travel, which is expected to grow by approximately 3% in both this year and next, and personal travel which is forecast to increase by 4% this year and then accelerate to 5% in 2015. The momentum in the travel sector is primarily due to the weaker loonie, which makes Canada a more economical travel destination, and the strong recovery that is under way in the US. Transportation services exports will accelerate in line with rising commodity exports that have swamped Canada's rail system, and demand is spilling over into ground transportation as trucking companies are stretched to find the resources to accommodate all the demand.

Growth in exports of commercial services will slow slightly from the 3% growth seen in 2013, before accelerating again in 2015. Exports of financial services will continue to the star performer as the significant foreign investments made by the Canadian industry over the past 5 years will translate into higher support sales. Exports of Intellectual Property (IP) will also continue to post very strong gains, with growth of 5% in both 2014 and 2015. The construction boom under way in the US will feed into higher commercial and real estate services exports while the projected rise in US business investment will benefit almost all of the commercial services subsectors.

SECTOR STATS

International Exports (2013): CAD 86.8 bn

Share of Sector Exports to Emerging Markets
2009: N/A
2013: N/A

Share of Total Canadian Merchandise Exports (2013): 16.4%

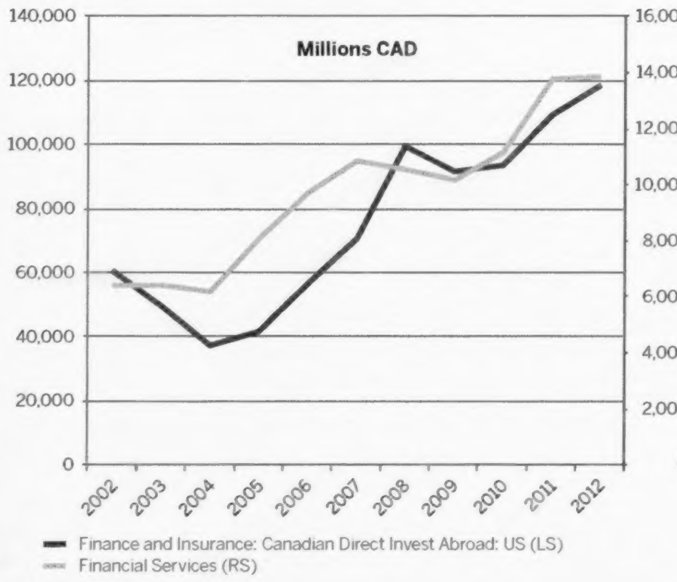
Sector Distribution Across Provinces:

NL	N/A
NB	N/A
NS	N/A
PE	N/A
QC	N/A
ON	N/A
MN	N/A
SK	N/A
AB	N/A
BC	N/A

Canadian Direct Investment Abroad: CAD 75 bn

Source: Statistics Canada

Figure 31: Growth in Financial Services Exports Tied to CDIA in US Financial Sector



Source: Haver Analytics

Table 16: Canadian Export Services Outlook

	2011	2012	2013	2014 (f)	2015 (f)
Total Service Exports ($ mn)	**83,850**	**84,086**	**86,761**	**89,214**	**93,147**
annual % change	**5.8**	**0.3**	**3.2**	**2.8**	**4.4**
Commercial Services ($ mn)	52,072	51,597	53,264	54,596	57,178
annual % change	7.4	-0.9	3.2	2.5	4.7
Transportation Services ($ mn)	13,587	13,508	13,885	14,288	14,788
annual % change	6.5	-0.6	2.8	2.9	3.5
Travel Services ($ mn)	16,624	17,387	18,200	18,964	19,781
annual % change	1.9	4.6	4.7	4.2	4.3
Government Services ($ mn)	1,567	1,593	1,409	1,367	1,401
annual % change	-6.7	1.7	-11.6	-3.0	2.5

Sources: Statistics Canada, EDC Economics

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Canadian goods exports will hit their stride in 2014, with international sales growth forecast to expand by 6% overall, up from 4% last year. The following year will see merchandise exports grow by another 6%. Most provinces will see significant gains in 2014 as they benefit from strong US demand and the weaker Canadian dollar, which will boost earnings for producers of commodities priced in US dollars. Ontario and Quebec are both forecast to trail the national average in 2014 but will lead the pack in 2015.

Newfoundland and Labrador exports will be ahead of the curve in 2014, expanding by 8%, before moderating to 3% growth next year. Continued expansion in the energy and mining sector is driving the 2014 rally, but growth will fall in 2015 as weak commodity prices overshadow production gains. **Prince Edward Island**'s export growth will also improve, reaching 9% in 2014, before slowing slightly to 6% in 2015. Growing American and European demand for Island-manufactured aircraft parts and seafood will fuel these gains. In **Nova Scotia**, export growth will reach 8% in 2014 and then drop to 3% in 2015. The province will gain from increased energy, seafood and lumber exports this year but will be constrained by subdued seafood and tire production next year. In **New Brunswick**, exports will be decidedly slower, increasing by 3% this year and next due to weaker energy prices and output.

With a 4% growth forecast for 2014, **Quebec** is also set to have a slower year due to capacity constraints in mining and low aluminum prices. However, Quebec will jump to the head of the queue in 2015, with export growth of 7% powered by forestry and aircraft. **Ontario** will also grow more at the national average in 2014, with export growth forecast at 6%. Next year, however, ores and industrial machinery will drive a 7% expansion. **Manitoba**, Canada's most diversified province, will experience high export growth of 10% in 2014 as it benefits from a bumper crop and strong projected demand south of the border for its manufactured goods. In 2015, softening commodity prices, particularly for energy and grains, will lead to weaker export growth of 4%. **Saskatchewan**'s exports will rise by 8% in 2014 due to a record crop, followed by a moderate 2% increase next year as normal harvest yields return. In **Alberta**, exports will also advance 8% in 2014, driven by gains across all major sectors. Lower growth of 5% is projected for 2015 due to declining energy and agricultural sales. Not to be outdone, **British Columbia**'s 2014 export growth is also forecast to amount to 8%, followed by a slower 7% expansion in 2015. Double-digit forestry export growth, driven by the ongoing recovery in the US housing market, is the main force behind these sales increases.

Table 17: Canadian Merchandise Export Forecast by Province

PROVINCES	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Newfoundland and Labrador*	11.8	2.7	4.8	8	3
Prince Edward Island	0.9	0.2	6.9	9	6
Nova Scotia	4.2	0.9	10.1	8	3
New Brunswick	14.5	3.3	-2.3	3	3
Quebec	64.4	14.5	3.6	4	7
Ontario	164.2	37.1	1.0	6	7
Manitoba	12.6	2.8	10.7	10	4
Saskatchewan	32.3	7.3	2.8	8	2
Alberta	103.3	23.3	7.7	8	5
British Columbia	33.3	7.5	5.9	8	7
Territories	1.7	0.4	-19.4	5	8
Total Goods Exports	**443.1**	**100.0**	**3.6**	**6**	**6**

Sources: Statistics Canada, EDC Economics

**Includes EDC estimate for crude oil exports (*not included in national total from Statistics Canada)*

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4.1 Newfoundland and Labrador

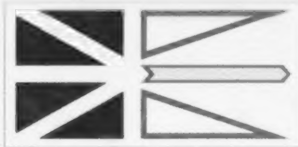
EDC Economics forecasts Newfoundland and Labrador's exports to experience bullish growth in 2014, expanding by 8%, before moderating to 3% in 2015. Shipment growth will largely be driven by continued expansion in the energy and minings sector in 2014. Growth will fall sharply to 3% in 2015 due to weak commodity prices.

In the energy sector, maintenance work in 2013 curtailed crude production and refinery output. Oil exports will rebound in 2014, growing by 6% followed by 4% growth in 2015. Crude production that was offline in 2013 will come back in 2014, but the impact of this will be offset by prices falling from USD 96/bbl in 2014 to USD 90/bbl in 2015 and by falling production in mature wells. In the long term, however, new exploration and development efforts that began in 2012 are likely to compensate for production declines caused by the maturing wells. The Hebron field, for example, will start to contribute to production volumes in 2018.

The outlook for ore exports is positive for 2014, which should see growth reach 14%. The uptick is mostly coming from increased production at new developments. While export prices for iron ore continue to decline, Tata Steel's investments in metal ore prospects are forecast to boost production this year and beyond. The new capacity will compensate for declining output at Voisey's Bay and Wabush. Dropping ore prices will slash growth to zero in 2015.

Newfoundland and Labrador's agri-food sector, dominated by seafood, is bearing the brunt of lower volumes, but moderate growth is nonetheless expected in 2014 and 2015, mostly driven by a slight uptick in cod exports. Once ratified, the recently concluded Canada-South Korea Free Trade Agreement will boost exports, especially in the seafood segment, impacting medium-term growth in several species such as shrimp and crab. However, the agreement is unlikely to come into force before the end of 2015, so the impact would be felt only in the medium term.

The balance of the province's exports includes a broad basket of goods, including forestry, motor vehicle parts and aerospace. We expect exports in this diversified category to experience a modest boost compared with the significant drop in 2013.



PROVINCIAL STATS

GDP
CAD 34 bn

International Exports/GDP
36%

Number of Exporters
240

Canada's Total Exporters
42,199

Trade Balance
CAD 7 bn

Largest Export Destinations
United States 55%
China 13%
United Kingdom 8%
Netherlands 7%
France 4%

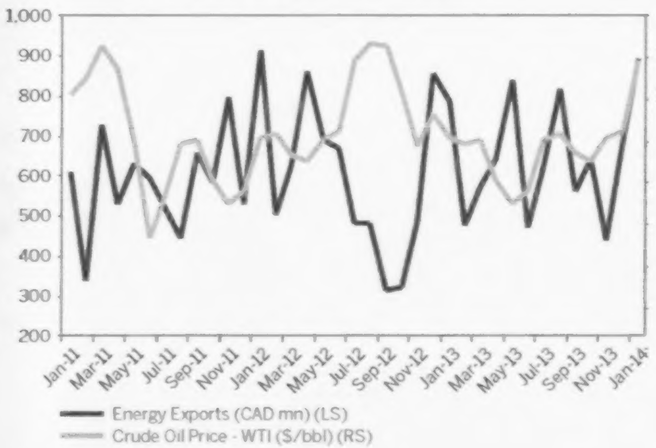
Share of Exports to Emerging Markets (Non OECD)
2013: 19%
2009: 18%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 49%

Regional Diversification: 34%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 32: Exports to Stabilize as Volumes Rebound



Source: Haver Analytics

Table 18: Newfoundland and Labrador Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Energy	7,268	64.3	4.3	6	4
Ores and Metals	2,733	26.9	15.9	14	0
Agri-Food	793	7.2	6.7	5	-1
Forestry	120	0.9	-14.8	4	3
All Others	880	7.5	-72.9	6	8
Total	**11,793**	**100.0**	**4.8**	**8**	**3**
Total excl. energy	**3,988**	**33.8**	**5.5**	**12**	**0**

Sources: Statistics Canada, EDC Economics

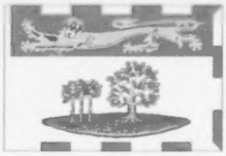
4.2 Prince Edward Island

Prince Edward Island's export growth will accelerate to 9% in 2014, and then slow slightly to 6% in 2015. Factors contributing to the surge in sales this year include the lower value of the Canadian dollar, and growing American demand for Island-manufactured aircraft parts and industrial machinery. In 2015, accelerating growth in northern Europe will provide a second wind to its seafood and manufactured goods exports.

Aerospace and related industrial machinery exports from P.E.I. slowed down dramatically in 2013 due to the economic uncertainty created among American companies by Washington's fiscal squabbles. With that issue resolved for the foreseeable future, Island aerospace manufacturers should benefit from an 11% increase in exports on the back of pent-up demand. The depreciating loonie will inject additional momentum into sales to the US as will the startup in 2014 of a facility for servicing unmanned aerial vehicles. In 2015, improving growth in the Euro area should translate into more orders, causing exports to expand another 15%.

Recovering demand will also provide a boost, albeit an indirect one, to Island French fry exporters in 2014. US fry exports should bounce back from a bad showing last year, which was related to a food safety scare in China and the drastic depreciation of the Japanese yen. This improvement in the US industry's outlook will benefit P.E.I. exporters, who backfill the void left in the US by American fryers supplying offshore markets. Exports are expected to grow 8% this year. The outlook for 2015 is a more modest 2% expansion, as the planned start of new American fry plants will constrain prices. Once the recently concluded Canada-South Korea Free Trade Agreement is formally ratified, probably not before the end of 2015, it will create new market opportunities for the French fry industry, which currently faces hefty tariffs.

For exporters of canned and processed lobster, the lower Canadian dollar value and price increases due to low inventories will drive export growth of 11%. In 2015, stepped-up growth in key northern European markets will provide another 4% boost to lobster meat sales. The Canadian Comprehensive Economic and Trade Agreement (CETA) with Europe is unlikely to be ratified before late 2015, so lobster processors will not benefit from tariff exemptions until 2016.



PROVINCIAL STATS

GDP
CAD 6 bn

International Exports/GDP
18%

Number of Exporters
180

Canada's Total Exporters
42,199

Trade Balance
CAD 1 bn

Largest Export Destinations
United States 71%
France 2%
Japan 2%
Indonesia 2%
Kenya 2%

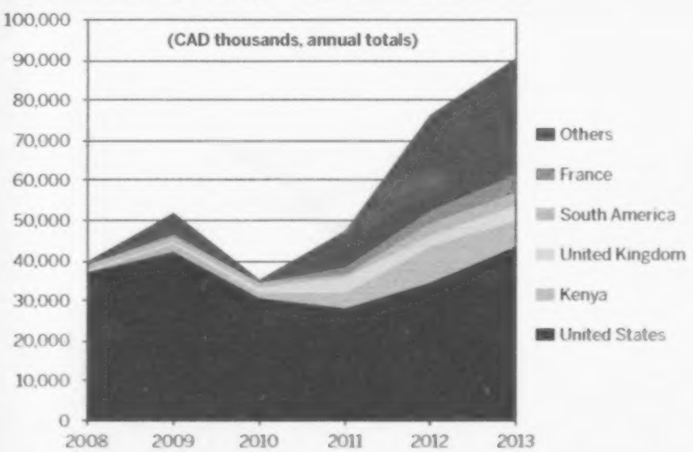
Share of Exports to Emerging Markets (Non OECD)
2013: 16%
2009: 10%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 30%

Regional Diversification: 53%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 33: PEI Aerospace Exports: Diversification Continues



Source: Industry Canada

Table 19: Prince Edward Island Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Agri-Food	502.3	59.2	5.9	9	3
Special Transactions	89.4	10.8	8.9	8	8
Industrial Machinery	87.9	10.7	9.6	8	9
Aircraft and Parts	63.4	7.2	2.7	11	15
All Others	155.0	17.3	10.3	8	8
Total	**898.1**	**100.0**	**6.9**	**9**	**6**
Total excl. energy	**840.2**	**93.6**	**6.9**	**9**	**6**

Sources: Statistics Canada, EDC Economics

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4.3 Nova Scotia

EDC Economics sees exports from Nova Scotia recording 8% growth in 2014 on a weaker Canadian dollar and higher exports of energy, seafood, lumber and machinery and equipment (M&E). In 2015, the strengthening global economy will support continued expansion but with the loonie not expected to depreciate further, and with subdued growth forecast for tire production, overall increases in export receipts will be limited to 3%.

Energy exports should jump from nearly $100 million in 2013 to over $300 million in 2015. Natural gas gets some lift this year from the resolution of production problems at Sable but the biggest gains will come from a full year of production at Deep Panuke. Although there are no other major projects slated over the medium to long term, both BP and Shell Canada have committed $1 billion to offshore exploration activities.

In the agri-food sector, exports will rise 8% this year thanks to a weaker Canadian dollar and higher prices for live lobster. Although notoriously hard to predict, prices in January and February started the year on a high note and demand in Asia and the US look solid. These same demand conditions will continue in 2015 but exports will nudge upward by only 1%, as the Canadian dollar moves sideways and scallop prices fall. Exports beyond the forecast should get a lift from the upcoming ratification of trade agreements with Europe and South Korea.

Average annual growth in forestry exports will come in at 6% through the forecast. Nearly all of the growth is expected to come from lumber as US housing starts rise 50% by 2015. Given the speed of recovery we expect in US housing, capacity constraints could limit upside for the industry in the province. Elsewhere, we assume production at Port Hawkesbury (super calendar paper) and Abercrombie (pulp) to hold steady.

The auto parts sector, led by Michelin, will fall this year and next in line with scaled-back production in Pictou before rising again in 2016. Closing out the forecast, exports of M&E are expected to rise 6 to 8% this year and next on a general rebound in US investment spending. While EDC Economics expects M&E sales to grow at the time this forecast was completed, no major new contracts had been announced.

PROVINCIAL STATS

GDP
CAD 38 bn

International Exports/GDP
19%

Number of Exporters
765

Canada's Total Exporters
42,199

Trade Balance
CAD (2) bn

Largest Export Destinations
United States 72%
China 5%
Japan 2%
United Kingdom 2%
France 2%

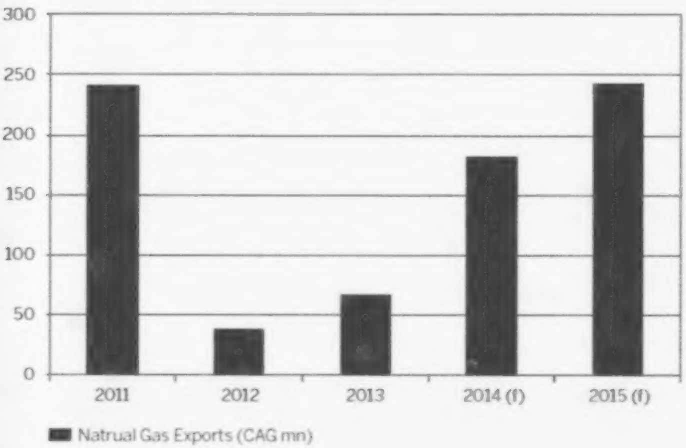
Share of Exports to Emerging Markets (Non OECD)
2013: 13%
2009: 7%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 17%

Regional Diversification: 54%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 34: Nova Scotia Gas Exports to Surge



Source: Statistics Canada

Table 20: Nova Scotia Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Agri-Food	1,175	32.2	14.5	8	1
Motor Vehicle, Parts	1,055	24.7	-2.3	-3	-6
Forestry	387	15.3	65.2	6	6
Chemicals/Plastics	313	8.2	8.6	2	2
All Others	1,245	29.8	-4.8	26	12
Total	**4,175**	**100.0**	**10.1**	**8**	**3**
Total excl. energy	**3,669**	**87.9**	**11.1**	**4**	**2**

Sources: Statistics Canada, EDC Economics

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4.4 New Brunswick

After a slight dip in 2013, EDC Economics expects New Brunswick exports to rebound by 3% this year, and next year. Driving these movements are fluctuations in energy prices and output.

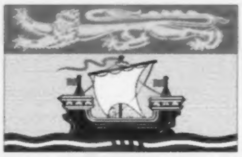
Lower refined petroleum prices and production levels are the main reason for the drop off in exports next year. Upcoming projects, such as the East-West pipeline or the plan to convert the Canaport LNG terminal into an export facility, which are set to be completed in the medium to long term, would be game changers. Coming off a huge initial year of production at Point Lepreau, electricity exports will moderate going forward.

Growth in the forestry sector will benefit from exploding lumber exports, which are riding high off the recent announcement that the province would allow the harvest of an additional 20% of softwood. This development, combined with rising lumber export prices, driven by the increase in US housing starts and constricted supplies due to the pine beetle infestation in British Columbia, will mean growth of 14% in 2014 and 8% next year. The only constraints on the sector are pulp and newsprint exports, which will see much lower growth. Substantial investments being made to revamp pulp mills will increase the efficiency of the industry in the province over the longer term.

In the agri-food sector, driven by higher prices, fish and seafood exports will grow by 3% this year and next year. The recently signed free trade agreements with South Korea and Europe will have a positive impact for this subsector in the medium to long term.

Potash production will continue to be down substantially this year as a result of the steep decline in global prices. Cutbacks in production at the Picadilly facility will be offset when demand for potash from India firms up and the new lower-cost production expansions come online over the medium term.

The mining sector in general has been hurt by lower commodity prices and access to financing. The impacts of the Brunswick Mine closure last year will continue to be felt, resulting in a drop in zinc production by 20%. This loss will be partially offset by the Caribou and Halfmile Lake mines, which will support metals and ores export growth of 7% in 2015.



PROVINCIAL STATS

GDP
CAD 32 bn

International Exports/GDP
50%

Number of Exporters
608

Canada's Total Exporters
42,199

Trade Balance
CAD (1) bn

Largest Export Destinations
United States 90%
Brazil 1%
China 1%
Turkey 1%
Japan 1%

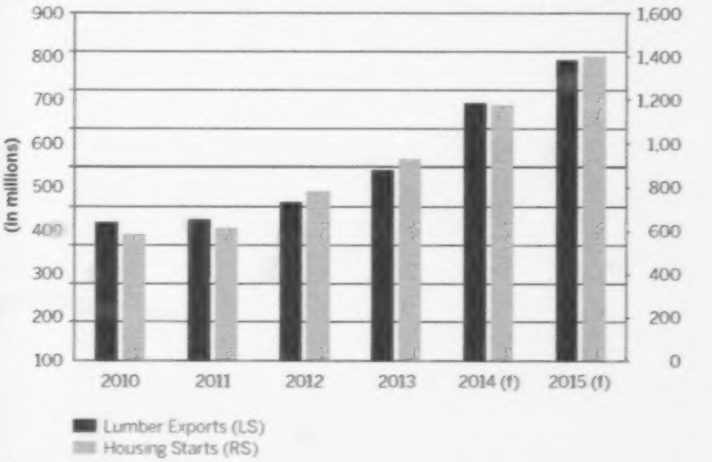
Share of Exports to Emerging Markets (Non OECD)
2013: 6%
2009: 7%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 27%

Regional Diversification: 81%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 35: Impact of Housing Starts on Lumber Exports



Source: Industry Canada

Table 21: New Brunswick Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Energy	10,586	70.9	-3.3	3	2
Forestry	1,450	10.6	6.0	14	8
Agri-Food	1,411	9.8	0.4	3	3
Ores and Metals	421	2.9	-1.3	-1	7
All Others	584	4.0	-8.8	-11	9
Total	**14,452**	**100.0**	**-2.3**	**3**	**3**
Total excl. energy	**4,211**	**29.1**	**0.1**	**4**	**6**

Sources: Statistics Canada, EDC Economics

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4.5 Quebec

Quebec's export sector is forecast to expand by 4% in 2014, accelerating to 7% in 2015, with growth driven by the lower Canadian dollar and rising demand in the US. Quebec's export sector is well diversified, with only two sectors expected to contribute over 10% of the province's total export volume in 2014: metals and metal manufacturing (20% of total exports) and aircraft and parts (12%). Lumber exports will see the greatest growth, expanding by 24% and 29% in 2014 and 2015, respectively.

Metals and ores exports are forecast to see no growth this year followed by a 6% rebound in 2015, with aluminum figuring largely in the initial decline. Expansion and modernization plans by aluminum producers were put on hold in 2013 owing to low prices. However, the sector is expected to get a lift from growing demand for aluminum in automotives. The body of the 2015 Ford F-150, for example, will be 97% aluminum. Gold exports will also receive a boost in 2015 with Goldcorp's Éléanore mine coming online, albeit at only one tenth of its full capacity.

The aerospace sector is experiencing continued growth due to steady demand for commercial and business jets in both developed and emerging economies. Exports will see a 3% increase in 2014, fuelled by US sales and strong demand from emerging Asian countries, notably China and Indonesia, which now account for over 10% of all aerospace exports. Aircraft exports will get an 8% boost in 2015, with the expected entering into service of Bombardier's C-Series jets.

Quebec's forestry sector, including the subsectors of newsprint, pulp and lumber, presents a mixed picture. Newsprint and pulp exports will contract over the forecast period with the continued shift toward digital media. However, this weak performance will be overshadowed by lumber export growth, which will barrel ahead to 24% growth in 2014 and 29% in 2015 thanks to the expanding US housing sector; supply constraints in British Columbia could also support stronger exports from Quebec.

PROVINCIAL STATS

GDP
CAD 358 bn

International Exports/GDP
26%

Number of Exporters
8,759

Canada's Total Exporters
42,199

Trade Balance
CAD (12) bn

Largest Export Destinations
United States 72%
China 4%
France 2%
Netherlands 2%
Germany 2%

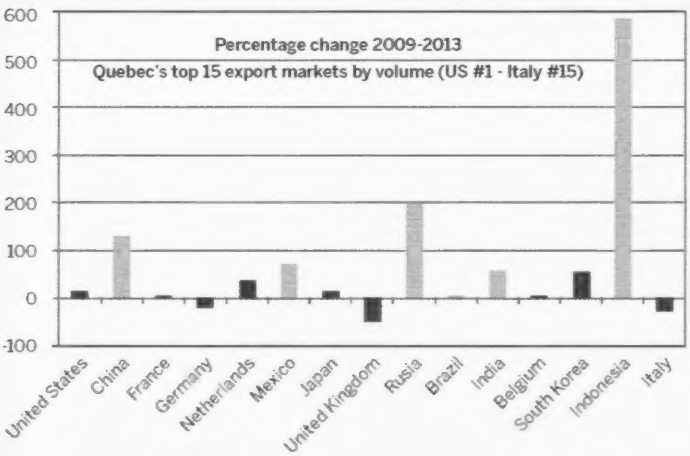
Share of Exports to Emerging Markets (Non OECD)
2013: 13%
2009: 10%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 13%

Regional Diversification: 54%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 36: Exports to Emerging Markets Soaring (% growth)



Source: Statistics Canada

Table 22: Quebec Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Ores and Metals	16,088	24.5	-1.9	0	6
Forestry	7,156	12.9	15.8	9	11
Aircraft and Parts	6,356	11.6	17.1	3	8
Chemicals/Plastics	6,447	10.4	3.7	2	6
All Others	28,374	44.0	0.3	6	7
Total	**64,422**	**100.0**	**3.6**	**4**	**7**
Total excl. energy	**58,274**	**90.5**	**4.1**	**4**	**8**

Sources: Statistics Canada, EDC Economics

4.6 Ontario

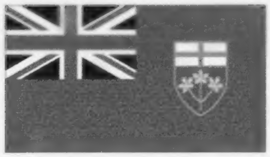
Ontario's export sector is set to improve upon last year's lacklustre performance, thanks to accelerating US demand and a weak loonie. Headline figures will be slightly weaker than the national in 2014, with export growth forecast at 6%. Next year, foreign sales will increase by 7%, outpacing the national average. Ores and industrial machinery will be the main growth drivers, while the automotive sector's comparatively tepid growth constrains the outlook.

The strong recovery under way in the US is likely to allow US auto sales to reach all-time highs of 18 million over the coming years. Ontario has, however, benefited little from this demand as capacity constraints continue to limit Ontario exports of passenger automobiles. Only modest 2% increases in exports are in the cards for 2014, but the much weaker Canadian dollar and investment announcements from Ford and GM do provide some upside potential for the outlook, with automotive exports growing 4% in 2015.

The metals story is largely positive, with 8% growth forecast for 2014. Contrary to what might be expected, gold producers still face a favourable environment over the forecast horizon. The era of record high gold prices is over but a significantly weaker loonie will pad domestic receipts and combine with production increases to push export sales upward in 2014. Next year, increased metals production will boost export growth to 12%.

Exports of steel will continue to post very modest growth rates despite the robust growth in the US construction and automotive sectors – two key end-users of steel. The latest announcement of job cuts at US Steel's plant in Hamilton is indicative of the persistent competitive challenges faced across the North American market.

Rounding out the forecast is the expectation that Ontario's industrial machinery exports will benefit from robust demand in the next 2 years, again due to positive private sector momentum in the US. The weaker Canadian dollar will also contribute to sales growth of 7% in 2014 and 13% in 2015.



PROVINCIAL STATS

GDP
CAD 674 bn

International Exports/GDP
33%

Number of Exporters
18,681

Canada's Total Exporters
42,199

Trade Balance
CAD (78) bn

Largest Export Destinations
United States 78%
United Kingdom 6%
Hong Kong 2%
China 1%
Mexico 1%

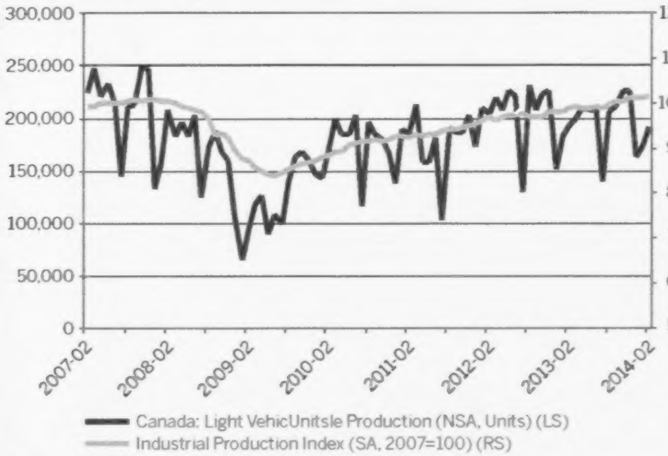
Share of Exports to Emerging Markets (Non OECD)
2013: 7%
2009: 5%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 20%

Regional Diversification: 62%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 37: Vehicle Production to Moderate While US Industrial Production Drives Ontario's Export Performance



Sources: Haver Analytics, Wards Automotive

Table 23: Ontario Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Motor Vehicle, Parts	58,461	35.2	-1.1	2	4
Ores and Metals	33,224	20.4	0.8	8	12
Chemicals/Plastics	18,876	12.2	6.6	2	6
Industrial Machinery	14,638	8.8	-1.6	7	13
All Others	39,018	23.8	2.7	11	6
Total	**164,217**	**100.0**	**1.0**	**6**	**7**
Total excl. energy	**159,330**	**97.0**	**1.2**	**6**	**8**

Sources: Statistics Canada, EDC Economics

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4.7 Manitoba

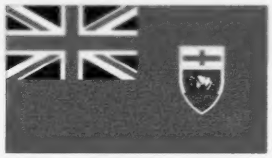
After a spectacular 11% surge in exports last year, Manitoba is expected to continue flying high, posting 10% export growth in 2014 with agri-food, industrial machinery and energy exports leading the way. The US still accounts for two thirds of all exports, but sales to China have almost doubled from just over 4 to 8% in the past decade. Looking to 2015, softening commodity prices, particularly for energy and grains, alongside expectations of lower production volumes, will lead to weaker agricultural export receipts. As a result, next year's export growth is expected to slow to 4%.

Manitoba had a banner year for agricultural exports in 2013. The challenge in 2014 has been getting the bumper crop harvest to market. Rail transportation issues created a backlog in grain deliveries but efforts to resolve the issue are under way and spring season provincial road weight restrictions have been relaxed. In tandem with a strong outlook for the processed food industry, agri-food exports are forecast to grow by 16% in 2014 before moderating to 2% in 2015.

Electricity exports to the US grew by just over 21% in 2013 owing to favourable water conditions. The outlook remains equally strong as Manitoba Hydro invests in transmission capacity and new export contracts are signed. The total value of the company's export contracts since 2010 is just over $9 billion. Our overall energy sector forecast envisages 7% growth in 2014 and 6% in 2015.

In the mining sector, both the Reed copper mine and Lalor gold-zinc-copper mine are expected to reach commercial production by early to mid-2014. This will drive stronger mining exports by 2015, although weaker commodity prices will have a dampening effect on export receipts, causing growth to shrink by 2%.

A weaker Canadian dollar and continued recovery in the US are forecast to lift manufacturing exports with industrial machinery exports forecast to grow by 9% in 2014 and 10% in 2015. In the transportation sector, New Flyer Industries continues to benefit from a strong pickup in pent-up US demand for public transportation vehicles. The aerospace outlook is also bright with the completion of Boeing Winnipeg's plant expansion for the production of new composite parts due by end of year.



PROVINCIAL STATS

GDP
CAD 58 bn

International Exports/GDP
26%

Number of Exporters
1,395

Canada's Total Exporters
42,199

Trade Balance
CAD (6.3) bn

Largest Export Destinations
United States 67%
China 8%
Japan 5%
Mexico 2%
Germany 1%

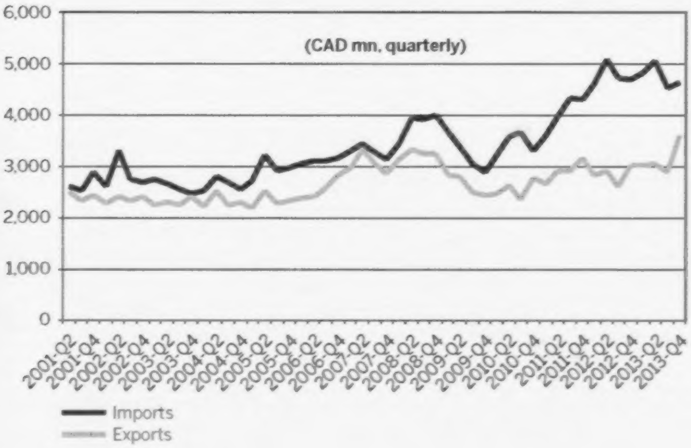
Share of Exports to Emerging Markets (Non OECD)
2013: 19%
2009: 20%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 16%

Regional Diversification: 48%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 38: Province Enjoys Export Boom as Manitoban Exports Exceed Pre-Crisis Levels



Source: Haver Analytics

Table 24: Manitoba Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Agri-Food	3,922	40.9	31.0	16	2
Energy	1,211	10.6	9.9	7	6
Ores and Metals	1,590	10.3	-18.3	1	-2
Industrial Machinery	1,247	10.1	1.4	9	10
All others	4,608	36.6	4.5	4	6
Total	**12,579**	**100.0**	**10.7**	**10**	**4**
Total excl. energy	**10,151**	**80.7**	**10.8**	**10**	**4**

Sources: Statistics Canada, EDC Economics

4.8 Saskatchewan

Saskatchewan's exports will rise by 8% in 2014, followed by a moderate 2% increase next year. Last year's record crop will drive this year's strong growth but in 2015 growth will slow, as agricultural exports fall back to normal levels. Fertilizer and energy exports will see moderate volume increases in both years, but prices are declining, which will moderate export receipts in 2015.

Saskatchewan's top performing export sector will be agri-food, which is forecast to grow by 15% this year, due to a surge in production as ideal weather conditions drove yields to record levels in spite of late seeding. The province's recent harvest reached a staggering 38.4 million tonnes, 41% above the previous year and almost all of the increased production will be exported in 2014 as Canada's beleaguered rail system struggles to catch up. Indeed, transportation will be the big challenge for Saskatchewan, but it is expected that much of the backlog will be cleared by the end of 2014. Next year, a decline in seeded area and a return to normal yields combined with softer agriculture prices will hold exports from the sector to a 1% increase.

The fertilizer sector will see a similar rise and fall pattern, with exports, driven by potash, forecast to rise by 6% this year before levelling off to 1% in 2015. Potash exports will rise in spite of minor operational and workforce reductions as the industry has significant inventories. However, the short-term forecast is challenged by global oversupply and falling prices, in part because of the break-up of the Russia-Belarus potash partnership.

Energy exports will expand by a modest 2% this year and next. Potential growth gains from small increases in crude volumes will be checked by softening prices. Robust investment and drilling activity will continue through the forecast horizon; however, major additions to production capacity will come online only after 2015. Saskatchewan metals exports will weaken because of falling gold prices but will receive a healthy boost from the massive Cigar Lake mine which began production in March and which will gradually ramp up to full production in 2018 of 18 million pounds of uranium per year.

PROVINCIAL STATS

GDP
CAD 78 bn

International Exports/GDP
42%

Number of Exporters
1,036

Canada's Total Exporters
42,199

Trade Balance
CAD 21.9 bn

Largest Export Destinations
United States 66%
China 8%
Japan 3%
India 3%
Indonesia 2%

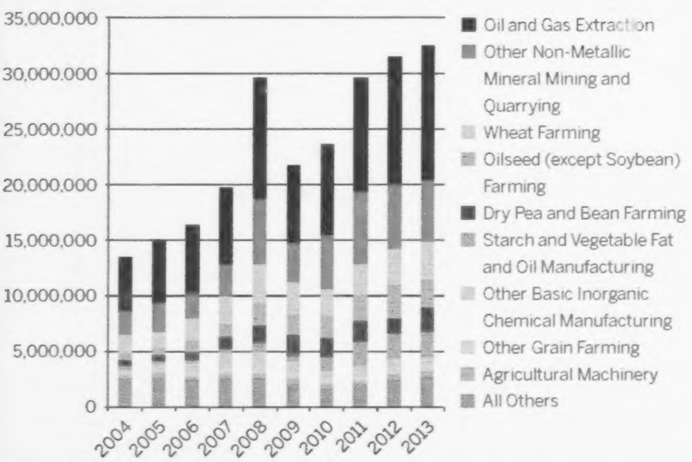
Share of Exports to Emerging Markets (Non OECD)
2013: 25%
2009: 27%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 27%

Regional Diversification: 45%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 39: Saskatchewan Exports at Record Levels



Source: Industry Canada

Table 25: Saskatchewan Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Energy	11,880	38.7	5.3	2	2
Agri-Food	11,139	36.1	4.7	15	1
Fertilizers	5,905	17.7	-2.9	6	1
Industrial Machinery	660	2.1	0.8	6	14
All Others	2,734	8.5	-6.5	5	9
Total	**32,318**	**100.0**	**2.8**	**8**	**2**
Total excl. energy	**19,568**	**60.5**	**1.2**	**12**	**2**

Sources: Statistics Canada, EDC Economics

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4.9 Alberta

Alberta's exports will advance 8% in 2014, driven by gains across all major sectors. Lower growth of 5% is projected for 2015 due to declining energy and agricultural sales, which will overshadow increases in other sectors. A softer dollar will help lift revenues this year, but crude prices will slip in 2015 causing a very slight contraction in overall crude revenues.

Crude oil exports are forecast to rise 8% in 2014 on the back of the softer Canadian dollar, before slipping in 2015 due to lower crude prices. Volumes are expected to rise in both years as transportation and refinery bottlenecks are addressed. Additional rail, barge and truck capacity can only partially satisfy growing transportation needs. To truly resolve these bottlenecks requires the completion of ongoing refinery reconfigurations and pipeline capacity additions, like this year's 120,000 bbl/d Alberta Clipper expansion. This will also narrow the USD 23/bbl discount on Western Canada Select Crude (WCSC) compared with West Texas Intermediate (WTI) to about USD 15/bbl within 4 years and add to the bottom line.

Extreme cold weather across North America caused natural gas prices to spike in the early months of 2014, though a return to normal conditions will mean a return to lower prices. Natural gas will average USD 4.25/mmbtu on the Henry Hub this year and, coupled with the weaker Canadian dollar, will lift natural gas exports by 15%. However at these prices, Canadian producers will still trim output which will lead to declining export volumes. Overall energy exports will advance 9% in 2014, followed by 4% in 2015.

The agri-food sector will show strong 13% export growth in 2014, with cattle, beef, wheat and canola sales to the US up significantly this year. However, in 2015, declining prices and volumes will cause exports to drop to 2%. Industrial goods exports led by machinery and equipment sales will post solid gains in both years, though slumping global mining activity has hurt overall performance in the sector. Global demand for other industrial goods like metals, ores and minerals is slumping, thereby holding back exports.

PROVINCIAL STATS

GDP
CAD 312 bn

International Exports/GDP
32%

Number of Exporters
4,226

Canada's Total Exporters
42,199

Trade Balance
CAD 73.2 bn

Largest Export Destinations
United States 88%
China 3%
Japan 2%
Mexico 1%
South Korea 1%

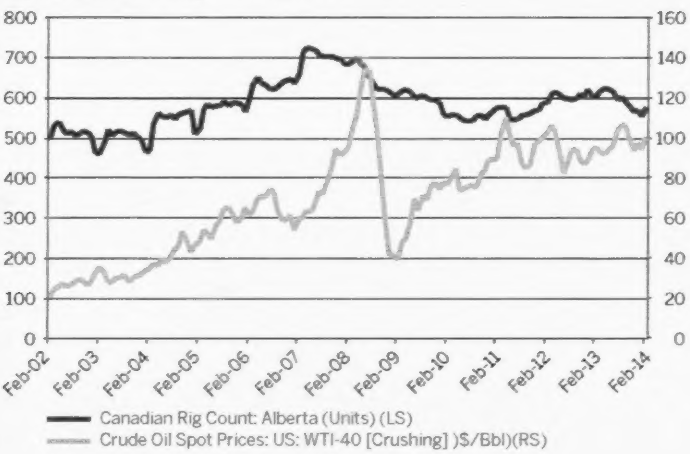
Share of Exports to Emerging Markets (Non OECD)
2013: 7%
2009: 9%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 55%

Regional Diversification: 78%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 40: Alberta Rig Count vs. WTI Prices



Source: Haver Analytics

Table 26: Alberta Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Energy	76,837	74.4	10.2	9	4
Agri-Food	8,665	8.4	-5.0	13	2
Chemicals/Plastics	6,925	6.7	18.7	1	8
Industrial Machinery	3,353	3.2	-8.2	6	13
All Others	7,492	7.3	-0.2	6	13
Total	**103,273**	**100.0**	**7.7**	**8**	**5**
Total excl. energy	**26,436**	**25.6**	**1.2**	**7**	**7**

Sources: Statistics Canada, EDC Economics

4.10 British Columbia

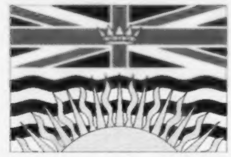
EDC Economics forecasts strong export growth of 8% for British Columbia in 2014, followed by a slower 7% expansion in 2015. The month-long strike by truck drivers at Vancouver-area ports that occurred in March is expected to result in some weakness in the first quarter of the year. However, double-digit forestry export growth, driven by the ongoing recovery in the US housing market and pricing benefits to commodities from the weaker Canadian dollar, will more than offset these short-term challenges.

US housing starts are forecast to cross the 1 million mark in 2014 for the first time since the financial crisis. BC's forestry exports should see an impressive 15% expansion as a result. Although the pace of growth is slowing moderately in China, demand from this market, which now represents a quarter of the province's forestry exports, will continue to increase.

The main challenge for BC's lumber industry is on the supply side. According to the province's Ministry of Forestry, more than half of the pine volume in the province has been killed by the mountain pine beetle infestation. By mid-2014, mills in Houston and Quesnel are expected to close due to a lack of timber supply. Volume growth from the sector will slow significantly in 2015, reducing BC's forestry export growth to 10%.

The pass through of the low Canadian dollar will result in higher prices for natural gas and coal, causing energy exports to grow by 3% in 2014. Despite talk of expanding coal terminal capacity in Vancouver, no announcements or approvals had occurred at forecast date and are not included in EDC Economics' outlook. Electricity, the smallest subsector of energy, is also expected to see notable growth as drought has reduced western US hydroelectric generation capacity.

Additional capacity and the opening of new mines are expected to lead to growth in the ores sector of more than 2% in 2014, while lower prices will result in zero growth in 2015. The ramping up of the Mt. Milligan mine's copper and gold production will continue, and the Red Chris copper and gold mine is also expected to enter production in 2014. The agri-food sector will grow 9% in 2014, benefiting from the weakening of the loonie and drought in California affecting US agricultural production.



PROVINCIAL STATS

GDP
CAD 220 bn

International Exports/GDP
22%

Number of Exporters
6,309

Canada's Total Exporters
42,199

Trade Balance
CAD (10.8) bn

Largest Export Destinations
United States 47%
China 20%
Japan 12%
South Korea 5%
Taiwan 2%

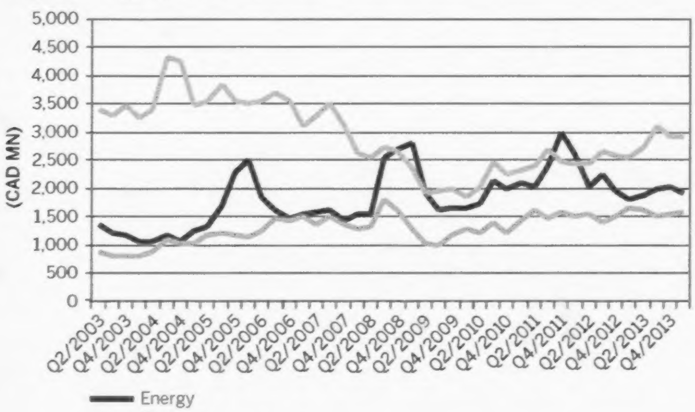
Share of Exports to Emerging Markets (Non OECD)
2013: 29%
2009: 19%

Trade Diversification Index (100=total concentration in a single sector/region and 0=completely diversified)
Sector Diversification: 20%

Regional Diversification: 28%

Sources: Statistics Canada, Haver Analytics, EDC Economics

Figure 41: Key Export Sectors



Sources: Haver Analytics, Statistics Canada

Table 27: British Columbia Merchandise Outlook

TOP SECTORS	CAD mn 2013	% Share of Provinces' Total Exports 2013	Export Outlook (% growth) 2013	2014 (f)	2015 (f)
Forestry	10,116	34.6	14.1	15	10
Energy	8,297	23.9	-4.0	3	8
Ores and Metals	4,710	15.0	6.1	2	0
Agri-Food	2,729	8.9	8.4	9	3
All Others	7,479	22.4	8.4	9	3
Total	**33,330**	**100.0**	**5.9**	**8**	**7**
Total excl. energy	**23,187**	**69.6**	**9.4**	**10**	**7**

Sources: Statistics Canada, EDC Economics

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+

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

○

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

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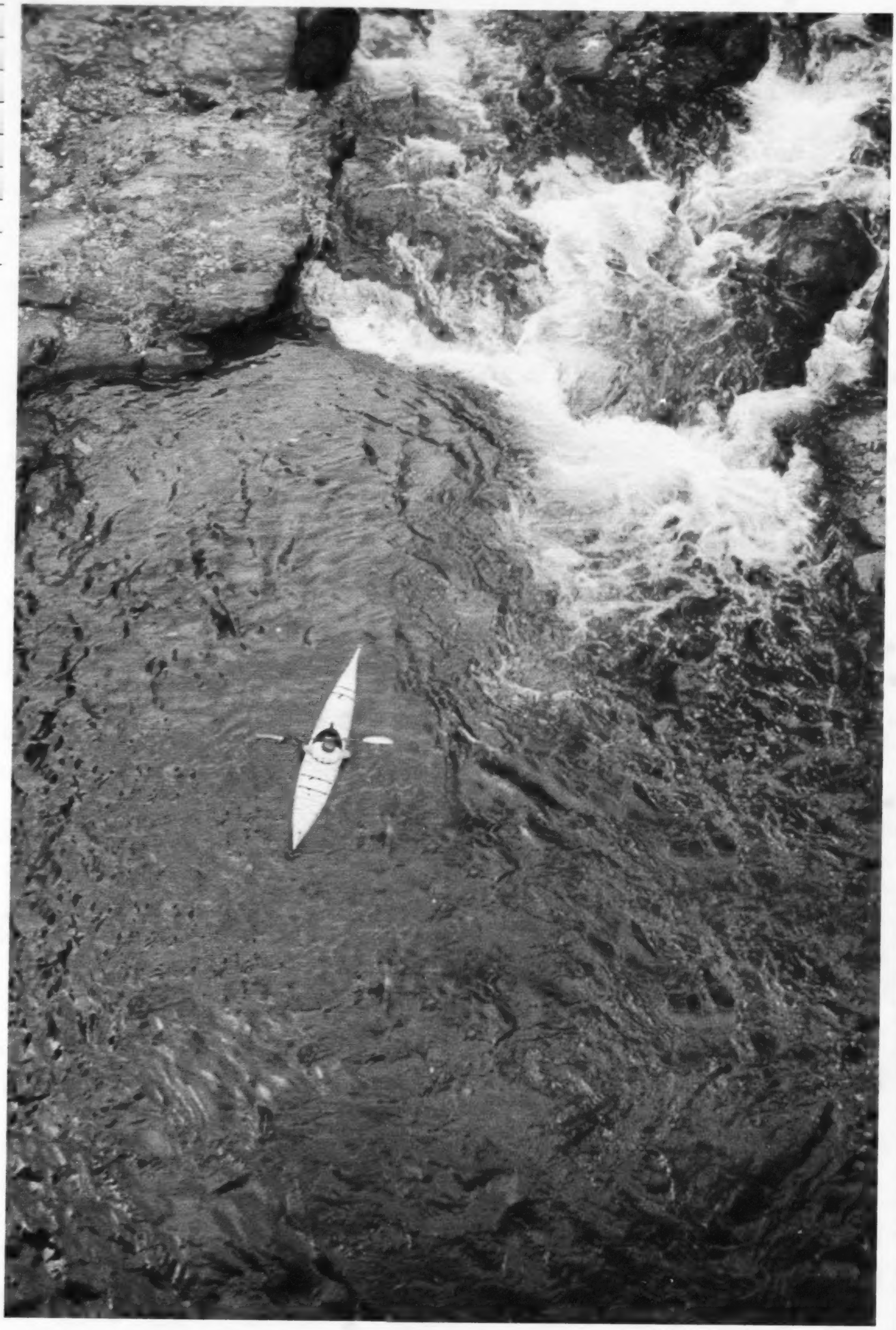

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5.1 Experience and Attitude

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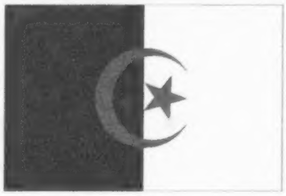

ALGERIA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Negative: —

Comments
The economy is forecast to grow by approximately 3% in 2014, driven by modest increases in oil and gas production. The non-hydrocarbons sector of the economy will see some growth, driven by continued government spending on infrastructure projects. FX reserves remain very high at an estimated 36 months' import cover. Negative factors include high inflation and payment delays from public sector entities. Delays are being exacerbated by political jockeying in advance of the presidential election scheduled for April 2014 and the uncertain health of the current president.

ANGOLA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
The economy remains highly dependent on oil (50% of GDP and 90% of FX earnings) and is thus exposed to price fluctuations; oil price drops have often led to FX shortages and payment difficulties in Angola. That said, Angola's impressive economic growth (expected to remain over 6% over the medium term) is driven by increases in oil production and buoyant prices. The current account remains in surplus owing to oil production and FX reserves covering over 8 months of import cover are ample. High levels of corruption and a cumbersome bureaucracy pose challenges to commercial operations.

ARGENTINA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
Imports and convertibility controls in place require importers to request permission from the Tax Agency (AFIP) to be able to import goods and to access US dollars for payment to exporters. This process increases the uncertainty around what goods would be allowed into the country as well as the risk of payment delays or default to exporters. Another devaluation of the currency within the next 12 months remains a possibility.

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5.1 Experience and Attitude

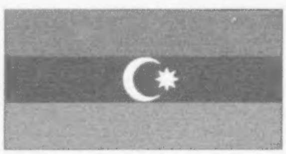
A B C D E F G H I J K L M N O P Q R S T U V-Z

AUSTRALIA

Risk Level

Short-term commercial: Low
EDC payment experience 2013: Positive: ✚

Comments
A drop in commodity export volume and prices continue to impact the near-term macroeconomic outlook. The weakening of the AUD is a welcome relief to non-commodity exporters as is the central bank (RBA) rate cut in mid-2013, though the AUD remains high compared with historical levels. Private consumption and housing sector activity appear to be moderating the export slump. As some large resource projects (live and planned) downshift or get postponed, SMEs feeding into them could face some challenges. However, a significant deterioration of the excellent payment experience is not expected.

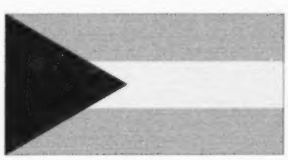


AZERBAIJAN

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: ✚

Comments
Geopolitical risk and the challenging operating environment are the key risks facing the commercial sector. A slight uptick in energy production coupled with generous infrastructure investment will support economic growth of 4% in 2014. The currency is fairly insulated from the volatility seen in other countries in the region, but some depreciation may be allowed by the central bank this year in order to slow import growth.



BAHAMAS

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: ✚

Comments
Economic growth will accelerate slightly in 2014, but will remain weak (at just over 2%) due to tepid tourism activity. The credit environment remains challenging with a high rate of non-performing loans weighing on credit growth.

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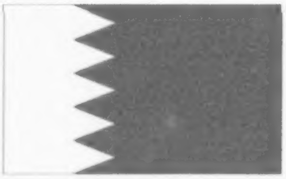


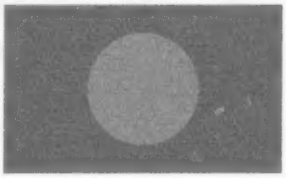
BAHRAIN

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: ✚

Comments

There continue to be frequent protests by activists from the aggrieved Shia community. While demonstrations are unlikely to cause significant business disruptions in the short term, they have expanded after occurring mostly in Shia villages outside the capital. Little progress has been made by the government to achieve political reconciliation and ease communal tensions, but a serious deterioration in the local economy and the credit worthiness of local buyers is unlikely. The currency peg is not expected to change and FX reserves will remain sufficient at 4.5 months' import cover.



BANGLADESH

Risk Level

Short-term commercial: High
EDC payment experience 2013: Negative: ▬

Comments

Payment delays are likely. Import cover has improved, but even with the buffer of an IMF program, markets will react negatively to unexpected shocks – meaning that capital flows could leave the market abruptly. Firmer oil prices and the inability to trim back domestic oil subsidies amid soft global growth (EU) are key risks.

BARBADOS

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: ✚

Comments

The economic profile is weakening, reflected by high unemployment, tepid growth and rising debt levels. However, while fiscal consolidation policies are under way, concerns remain as to the speed of such reforms. FX reserves continue to decline and are now at only 2 months of import cover.

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5.1 Experience and Attitude

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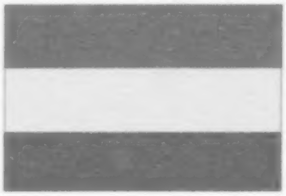


BOLIVIA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

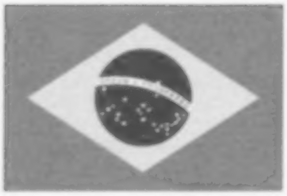
Comments
Dollarization remains high which constrains monetary policy and constitutes a vulnerability to the banking system; however, benefits accrue from strong FX reserves, totalling 13 months of import cover. Political fragmentation and the potential for social unrest have negative impacts on private sector operations. Indicators for regulatory quality, rule of law and ease of doing business depict a very challenging business environment.

BOTSWANA

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments
Weak demand for diamonds in recent years has weighed on growth; diamond mining accounts for over 80% of exports and 30% of government revenues. However, the economy picked up in 2013 and should continue to grow moderately (4% annually) in the coming years. FX reserves are sufficient at over 10 months of import cover and the domestic currency (pula) is expected to remain stable. Botswana stands out as having a good operating environment and the country ranks as one of Africa's least corrupt countries. The banking sector is also relatively stable.



BRAZIL

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments
A high level of international reserves will result in overall benign liquidity conditions for the commercial sector. Non-performing loans are stable but remain relatively high, which warrants caution and continuous monitoring. Payment experience varies considerably depending on the sector. Currency depreciation will be closely monitored but is largely seen as normalization and return to its real value.

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5.1 Experience and Attitude

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BULGARIA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: ✚

Comments

Political stability has deteriorated and ongoing anti-government protests are expected to persist; however, EU membership will provide a solid policy anchor. Economic growth has been marginally positive the past few years and in 2014 should pick up slightly, in line with improving conditions in Western Europe. FX reserves remain at comfortable levels and the currency peg to the euro is stable.

CAMEROON

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2013: Insufficient Data

Comments

Cameroon runs persistent current account deficits and its principal exports (oil, wood and cocoa) are sensitive to changes in global prices. The regulatory environment and legal system can be unreliable. Cameroon's financial sector, while liquid, is over-exposed to the troubled state refinery which has run arrears with the banks. Cameroon's growth outlook (nearly 5% in 2014) and its membership in the CFA franc zone, which provides exchange rate stability and guarantees currency convertibility, are credit positives. Policy continuity is likely to be maintained in 2014 but the medium-term political outlook is less certain.

CHILE

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: ✚

Comments

The commercial sector is characterized by strong liquidity (international reserves equivalent to 5 months of import cover), a developed banking system and a stable currency. The economy is very dependent on copper exports; however, the existence of a counter cyclical policy framework together with the Stabilization Fund should help cushion against external shocks, including the impact a slowdown in China could have on copper prices.

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5.1 Experience and Attitude

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V-Z

CHINA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments

Economic growth is settling around 7.5%. Certain sectors like the residential property, SMEs and state-owned banks could come under stress in this slower growth phase. Localized protests over corruption, environment and land ownership are likely.

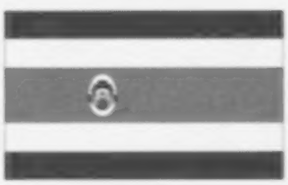
COLOMBIA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments

Liquidity and access to the US dollar is good. Economic growth will remain around potential (4 to 4.5%). The Colombian peso has finally begun softening after being one of the fastest-appreciating currencies over the past decade. This will give manufacturing sectors a necessary boost.



COSTA RICA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments

Liquidity and access to FX are good (almost 6 months of import cover). The central bank intervention will ensure exchange rate stability. Growth is expected to accelerate above 4% in 2014, though much of this is driven by the free trade zones which have little direct impact on the local economy. A second round of presidential elections in April will mean no major reforms in the short term and a delay of major projects.

Table of Contents

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5.1 Experience and Attitude

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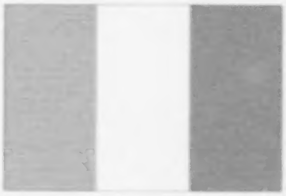

CÔTE D'IVOIRE

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments

Côte d'Ivoire performs poorly in the World Bank's governance indicators that speak to corruption and the rule of law. The country has made significant business environment improvements but still occupies a low ranking in the World Bank's Ease of Doing Business index. Government payment delays and arrears to external suppliers also still pose a risk, but a reduced one in 2014. GDP growth will again be strong at 9%, as the economy continues to recover from the 2011 political crisis. FX reserve levels are comfortable at over 3 months of import cover.

CROATIA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments

The economy has been in recession for 5 years but is projected to return to positive growth in 2014. The financial sector is dominated by foreign banks, and is quite sound, but non-performing loans are on the uptick and many companies have significant exposure to FX risk. Croatia joined the EU in July 2013 yet significant challenges in the business environment persist.

CZECH REPUBLIC

Risk Level

Short-term commercial: Low
EDC payment experience 2013: Negative: —

Comments

The Czech economy contracted by 1.1% last year but is expected to grow 1.6% in 2014. The weaker krona has helped export competiveness and while further downside risks in 2014 are possible, minimal FX-denominated debt among households and business mean a limited impact on the domestic economy.

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5.1 Experience and Attitude

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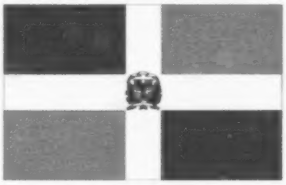
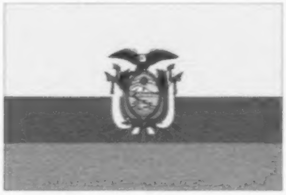


DOMINICAN REPUBLIC

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: ✚

Comments
Liquidity concerns are present with import cover below 3 months, however access to capital markets will prevent any crisis. Government spending is expected to pick up in 2014 after previously contracting and, together with rising gold exports, should help lift growth from 2 to 3.6% in 2014. Tensions have been rising over a government decision to repatriate Haitian immigrants.



ECUADOR

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: ✚

Comments
International reserves are equivalent to 2 months of import cover, leading to cashflow issues for private buyers when the country faces oil price fluctuations. This is exacerbated by the country's access to international capital markets. That said, EPIC considers the risk of Ecuador abandoning dollarization to have decreased significantly over the short term. Payment flows have improved, albeit slowly, since the 2008 sovereign default.

EGYPT

Risk Level

Short-term commercial: High
EDC payment experience 2013: Negative: ▬

Comments
Aid inflows from the conservative Gulf monarchies, which supported the July 2013 military overthrow of Egypt's first elected Islamist president following massive street protests, have propped up foreign reserves to an amount equal to four months' import cover. However, Egyptian society is still deeply polarized and political violence risk has increased, preventing the return to normalcy needed to allow an economic recovery. Currency controls are still in effect, lengthening the time it takes for companies in Egypt to acquire hard currency and driving up the risk of non-payment from Egyptian buyers.

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5.1 Experience and Attitude

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V-Z

EL SALVADOR

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments

As a result of low investment, weak competitiveness and weather-related incidents, depressed growth of only 1.6% is expected this year. New capital projects should spur investment. While tensions have subsided, political polarization is high following a very close victory by the incumbent party in the recent presidential elections.

EQUATORIAL GUINEA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Insufficient Data

Comments

The country is oil rich, producing 250,000 to 300,000 barrels per day, but elevated levels of public and private corruption as well as past instances of arbitrary government actions against businesses drive the High rating. Oil exports account for about 75% of GDP, exposing the country to price volatility. Wealth and power are concentrated in the hands of key allies of the president, who has been in power since 1979. Authorities appear to be moving toward diversifying their revenue stream and creating growth-enhancing investments to address growing domestic tensions and international pressure.

ESTONIA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments

The economy is projected to continue expanding at a healthy pace – around 3% this year and again in 2015. Estonia's main trading partners are the Nordic countries and Germany, which makes it less exposed to the crisis in Europe. Non-performing loans are falling and domestic credit conditions improving. Estonia's currency is the euro and FX risk is minimal.

EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

+
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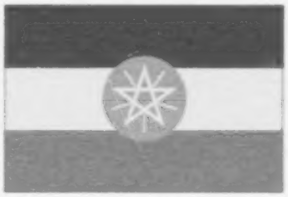
5.1 Experience and Attitude

A B C D E F G H I J K L M N O P Q R S T U V-Z



ETHIOPIA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
Ethiopia's FX earnings are dependent on vulnerable commodity exports (coffee, gold and agricultural products). While exports are slated to grow in 2014, expensive capital equipment imports required by the Ethiopian government's investments in infrastructure and energy projects mean that the current account deficit is likely to remain elevated at 9% of GDP in 2014. Remittance inflows will also drop slightly in 2014 following the expulsion of many Ethiopian workers from Saudi Arabia. FX reserves are therefore expected to remain below 2 months' import cover in 2014, driving up payment risk.

FRANCE

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments
The French economy is expected to grow 0.9% in 2014, while business confidence is weak. Lending remains tight and the top French banks have been downgraded because of exposure to the troubled countries of Peripheral Europe. Overall payment experience is "fair" as some slow payments are being reported.

GABON

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2013: Positive: +

Comments
The economy's dependence on commodities is a rating weakness. Oil production accounts for 60% of government revenue and 80% of exports. Poor coordination within Gabon's government often leads to payment delays. Nevertheless, at over USD 15,000, Gabon's GDP per capita is high compared with the level of regional peers. In addition, because the country is a member of the regional CFA franc zone currency union, it has access to FX reserves pooled at the regional bank, thus mitigating the risk of non-payment due to hard currency shortages.

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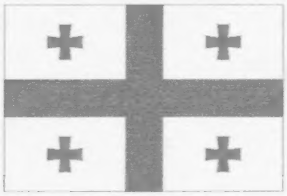

GEORGIA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Insufficient Data

Comments

Short-term commercial risk is assessed as Medium-High. Georgia's current account deficit is narrowing but remains high, at around 9% in 2014 (forecast). Nevertheless, the country is quite insulated from the quantitative easing tapering effect because of the nature of its capital inflows (which are stable and longer term). Economic growth will continue at a robust pace, with a projection of 5% expansion in 2014.

GERMANY

Risk Level

Short-term commercial: Low
EDC payment experience 2013: Positive: +

Comments

Germany is the safe haven of Europe with its healthy public finances, large current account surpluses, and highly competitive and dynamic business sector. German GDP growth will increase to around 1.5% in 2014, up from 0.5% in 2013. Payment experience is excellent.

GHANA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments

Weak gold and cocoa prices will constrain Ghana's FX earnings in 2014, while oil and gas-related capital imports continue to burden the current account. Ghana's currency (the cedi) is set to continue depreciating and FX reserves are expected to drop to just over 2 months' import cover in 2014. Currency controls imposed on residents (not foreign investors) in February to stem the cedi's decline could result in payment delays. High interest rates and the government's poor fiscal situation, which is driving public sector arrears to local companies, are additional constraints.

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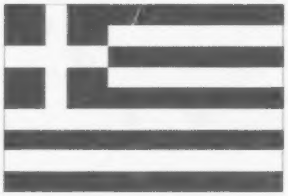
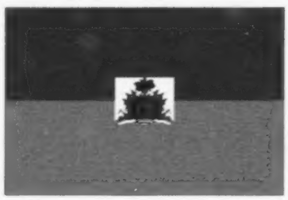


GREECE

Risk Level

Short-term commercial: High
EDC payment experience 2013: Negative: –

Comments
The Greek economy has suffered with depressionary conditions with GDP contracting by 24% over the previous 4 years. However, Greece is expected to return to modest growth in 2014. Record numbers of businesses have closed and unemployment has reached 27%. Between 15 and 20% of business loans are non-performing as companies are dealing with weak domestic demand. The business environment remains highly stressed.

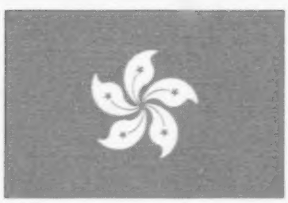


HAITI

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
Short-term commercial risk is assessed as High owing to the country's institutional weaknesses and high reliance on donor funds. FX reserves are at adequate levels.



HONG KONG

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments
FX reserves are more than adequate to finance roughly four times the external debt – thus access to capital should not be a problem for local companies. The money supply is also covered by FX reserves, so currency stability will remain.

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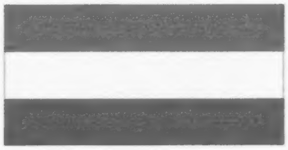
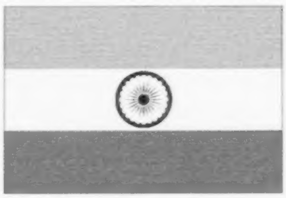


HUNGARY

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments
The Hungarian forint has been weakening signficantly over the past few months in part due to the general quantitative easing effect that has seen capital flows reversing, but also due to an extended period of monetary easing. Growth will pick up slightly in 2014, but key external vulnerabilities remain (particularly the high FX-denominated debt).



INDIA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments
A fairly large fiscal shortfall amid high inflation rates leave the authorities little room to stimulate growth through government spending or a credit loosening. Fortunately, FX reserves are quite high, suggesting that companies should be able to service foreign debt obligations on time. Expect continued currency volatility over the coming 12 to 24 months.

INDONESIA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments
The currency depreciated approximately 16% against the US dollar in 2013 and is likely to remain under pressure due to hot money outflows (portfolio). FX reserves have declined as the central bank tried to defend the currency. Several swap lines have been set up to boost FX liquidity. Interest rates have been raised three times this year as authorities attempt to tame inflation but also stem the capital outflow. Higher rates, currency weaknesses and lower growth may start biting weaker company margins. Obtaining permits/approvals across government departments and provinces can get complicated.

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5.1 Experience and Attitude

A B C D E F G H I J K L M N O P Q R S T U V-Z

IRAQ

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

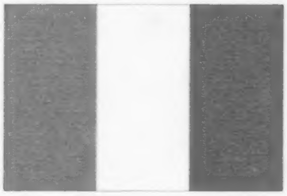
Comments
Instability and the resurgence of violence and bombings are expected to continue at least until elections, scheduled to be held in April 2014. In addition, poor commercial morality, high levels of corruption and administrative inefficiencies drive up payment risks. Payments from government entities are often delayed due to the slow approval system. However, the ability to pay is strong, in the case of government entities. Iraq has ample FX reserves and is benefiting from increases in crude production. Outlooks for currency and inflation are stable.

ISRAEL

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Neutral: ○

Comments
The country will continue to see growth, albeit at a slower pace than in recent years, due to the slowdown in Europe, one of Israel's main trade partners. The current account balance will see an improvement this year as new offshore gas production comes online. FX reserves remain strong at 9 months' import cover. While political violence levels are elevated (Medium-High), the Israeli economy has shown itself to be highly resilient during recent conflicts, which had relatively low impacts on commercial activity.



ITALY

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Negative: —

Comments
Italy is challenged by a weak economy with GDP forecast to grow tepidly, just 0.3% in 2014 after contracting by 1.9% in 2013. The recent decline in risk spreads on Italian debt has reduced the pressure on Italian banks, but markets remain nervous and the domestic credit conditions are tight. Payments to exporters abroad continue to be fair or slow.

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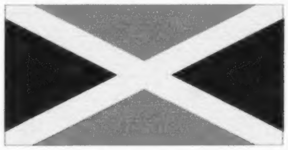


JAMAICA

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2013: Positive: +

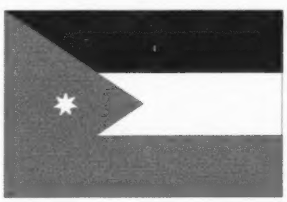
Comments
There are payment delay problems owing to delays in accessing US dollars. Banks should continue to be monitored for signs of stress given their significant exposure to sovereign debt.

JAPAN

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments
Embattled Japanese exporters that have been complaining of a strong yen are welcoming the approximately 20% depreciation (since 2012) due to aggressive and unorthodox central bank policies ("Abenomics"). However, domestically oriented companies could see growing pressure on margins due to higher energy costs. For 2014, the focus will be on the sales tax hike (from 5 to 8%) as it could dampen the nascent growth momentum. Overall, payment risks have eased, as highlighted by a sharp decline in bankruptcies. Companies reliant on China could face challenges if tensions with China escalate.



JORDAN

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments
The level of import cover has improved from 2012 and is expected to average around 6 months in 2014. This is below the recent historical average as the intermittent supply of gas from Egypt has required the government to purchase fuel on the open market. Regional turmoil continues to suppress the number of tourists visiting the country and close a number of trade routes. In the near term, growth is forecast to be around 3.5%. Growth will also be affected by the large number of refugees from the Syrian civil war that tax existing infrastructure and government resources.

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5.1 Experience and Attitude

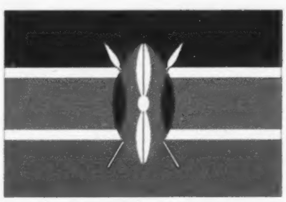
A B C D E F G H I J K L M N O P Q R S T U V-Z

KAZAKHSTAN

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
The banking sector has yet to fully recover from its 2009 crisis and non-performing loans remain very high (over 30%). Despite robust economic growth, high oil prices and sizable FX reserves, the government decided to devalue the tenge by 20% in February, which is now pegged around 184KZT/1USD. Further devaluation is possible in 2014 and will depend on the unfolding crisis in Ukraine and the related impact on the Russian ruble, which has come under pressure in international markets as sanctions by the West are implemented.

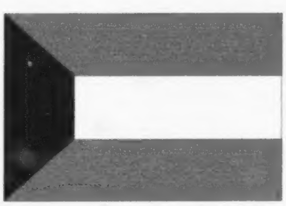


KENYA

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2013: Positive: +

Comments
The economy will continue to expand at a healthy pace with a forecast of roughly 6% GDP growth for 2014. Rising public wages, coupled with a weakening of the shilling, have raised concerns over accelerating inflation. FX reserves remain comfortable at over 4 months of import cover.



KUWAIT

Risk Level

Short-term commercial: Low
EDC payment experience 2013: Neutral: ○

Comments
Growth is expected to increase slightly in 2014 to around 2.5% due to improved domestic demand and a mild increase in oil exports. There is ample import cover and the current account is expected to remain in surplus. The election at the end of July 2013 was the third one since February 2012. There has been little change in the poor relationship between parliament and the executive. MPs have proven to be skeptical of large projects led by foreign firms and have undertaken frequent investigations and delayed approvals.

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5.1 Experience and Attitude

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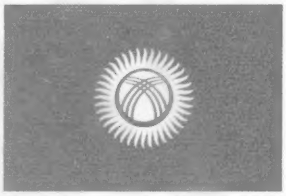

KYRGYZSTAN

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
Political stability has improved but the dispute with Centerra has led to significant uncertainity. After a contraction in 2012 the economy grew strongly last year. In 2014, lower gold prices and higher public investment will put pressure on the current account and fiscal balances. The country has an IMF program and received a disbursement in December 2013.

LEBANON

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
The country remains deeply divided along religious lines with parliament unable to form a stable government and a caretaker cabinet unable to endorse any major policies. Elections initially scheduled for July 2013 have been delayed 17 months to November 2014. The involvement of Hezbollah in the Syrian civil war is unsettling relationships between religious groups. Slow growth of around 1.5% is expected in 2014. Domestic banks hold a large share of the country's debt, limiting the scope for growth in private sector credit.

LIBYA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Negative: —

Comments
Despite substantial FX reserves, payment risk remains elevated. In some cases, public sector entities have not shown a capacity to make timely payments, possibly due to administrative disorder and poor public management. In addition, the private sector will remain constrained by limited access to bank financing. Ongoing political and criminal violence as well as strikes affecting ports and oil export terminals also pose a challenge to the commercial environment.

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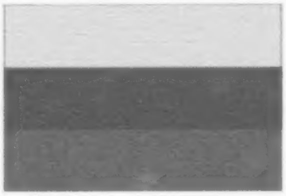
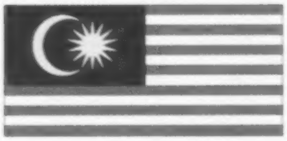


LITHUANIA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: ✚

Comments
Economic growth has been healthy, especially against the backdrop of the crisis in Europe, and GDP growth of around 3.5% is expected in 2014. Despite the healthy economic conditions, non-performing loans remain high and domestic credit conditions continue to be somewhat constrained. Euro adoption remains on the agenda and is expected in 2015.

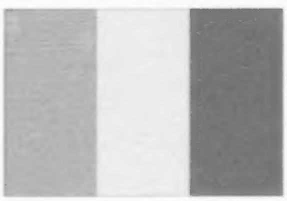


MALAYSIA

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: ✚

Comments
The outlook for economic growth remains positive despite some near-term capital market volatility. Company profit margins could experience some stresses due to inflation, a weakening currency and higher energy costs. Global growth momentum should help FDI-led export-oriented companies. The business environment is supported by sound infrastructure and close supply chain links with Singapore. Sizable FX reserves and a favourable external debt profile allow Malaysia to absorb most balance of payment-related shocks.



MALI

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: ✚

Comments
Mali is a commodity-exporting, low-income economy that has only recently emerged from political crisis. Democratic elections held in late 2013 gave a strong mandate to the new government, which replaced an interim administration put in place following the 2012 coup. However, tension between the central government and a Northern minority group has not been resolved since the 2012-13 political crisis, and government control in that region remains tenuous. Mali's economy has nevertheless recovered and will grow over 6% in 2014, bolstered by the resumption of donor support and increased mining production.

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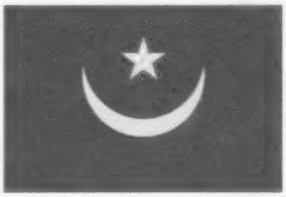
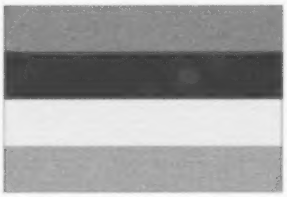


MAURITANIA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Negative: —

Comments
Mauritania's economy is heavily reliant on volatile metals exports (iron ore, copper and gold). The business environment is considered poor, with the tax system and the difficulty local companies face in spending taxes and accessing foreign currency identified as two reasons behind its low ranking in the World Bank's Ease of Doing Business index. Socio-economic discontent and terrorism remain threats to stability but are unlikely to bring down the government in the short term. Despite Mauritania's large current account deficits, the country has ample FX reserves amounting to 7 months of import cover.



MAURITIUS

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments
The small dynamic economy avoided recession during the last crisis, and while growth is currently slowing due to adverse global conditions (Europe remains the country's main trading partner), it will continue to post healthy GDP growth rates (over 3%). FX reserves remain comfortable (e.g. over 4 months of import cover) and with inflation subdued currency stability is expected over the next year.

MEXICO

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments
Economic growth will accelerate in 2014, driven by a US recovery, government spending on infrastructure and continued FDI inflows. Inflation will come down to around 3% while the peso will continue a slight depreciation. Positive payment experience is reported in the market.

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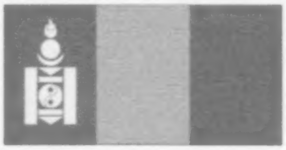
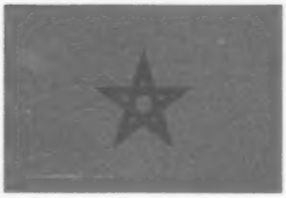


MONGOLIA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
Macroeconomic imbalances, stresses on the financial sector along with soft commodity prices and weak FDI into Mongolia in 2013 are all contributing to dampen near-term growth prospects and increase credit risks. Inflation moderated somewhat in 2013 from the double-digit highs of 2012, but remains a concern. Credit growth has been excessive and the fifth largest bank was taken over by the central bank in mid-2013, pointing to vulnerabilities. External liquidity, although not in crisis territory, has also weakened due to declining FX reserves and export earnings and the slump in FDI.

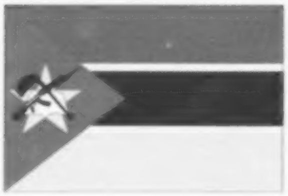


MOROCCO

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Negative: —

Comments
Real GDP is forecast to grow by around 4% in 2014, down from 5% in 2013. Growth in 2013 was supported by robust agricultural production, which offset weak demand for minerals (phosphates) from trade partners in Europe. Lower tourism receipts due to European economic weakness persist. The government undertook actions to reduce general subsidies provided for food and fuel and to increase social support. This helped to contain the fiscal deficit and reduce the current account balance. FX reserves are expected to remain comfortable at around 5 months of import cover.



MOZAMBIQUE

Risk Level

Short-term commercial: High
EDC payment experience 2013: Insufficient Data

Comments
Robust economic growth (above 7%) will persist over the medium term and opportunities in the extractive (gas and coal) and infrastructure sectors are significant. The key risks are related to the weak commercial environment, which is characterized by corruption and a weak legal system. Development of the gas sector has led to a spike in imports and a significant current account deficit (38% of GDP); however, this deficit will narrow once gas production comes online and other exports (i.e. coal) continue expanding.

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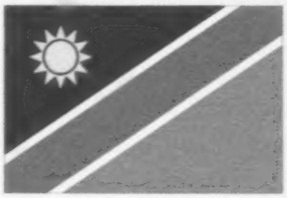
5.1 Experience and Attitude

A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V-Z

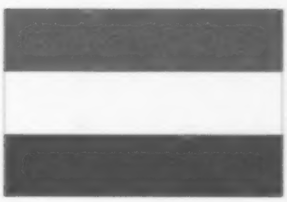


NAMIBIA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments
The economy will continue to expand at a healthy pace of approximately 5% annually over the medium term, driven by continuing FDI into new infrastructure and mining projects. As part of the Common Monetary Area, FX risks are mitigated and Namibia's dollar pegging to the South African rand is expected to remain in place. However, the volatility of the rand has led to heightened inflation in Namibia. The economy is heavily dependent on mining sector production (11% of GDP) and is closely intertwined with that of South Africa, which is the country's main trading partner.

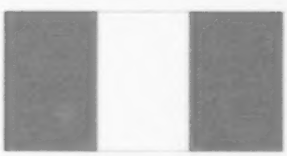


NETHERLANDS

Risk Level

Short-term commercial: Low
EDC payment experience 2013: Negative: –

Comments
Short-term risk is Low. GDP growth is expected to be slow in 2014 at just 0.6%.



NIGERIA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
Short-term commercial risk mainly related to poor governance (e.g. heightened corruption and lack of transparency), a weak regulatory environment and frequent payment delays are reported by external sources with regard to the Nigerian public sector. Real GDP growth will remain high at over 6% in 2014, driven by private consumption. The current account balance is expected to post another surplus with FX reserves at a comfortable 6 months' import cover. Intensifying political competition between the governing party and opposition will, however, result in increasing political violence in the country's unstable North and the Niger Delta.

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5.1 Experience and Attitude

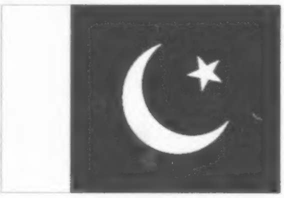
A B C D E F G H I J K L M N O P Q R S T U V-Z

OMAN

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments
The government responded to the Arab Spring by increasing public sector wages and unemployment benefits, expanding the number of subsidies and creating more than public sector jobs. In addition to this fiscal stimulus, the economy is also benefiting from loose monetary conditions and a continued peg to the US dollar. Growth is expected to remain between 3.5 and 4% in the near term. Oil exports, which underpin the economy, are primarily oriented to Asia and supported by stable global prices.

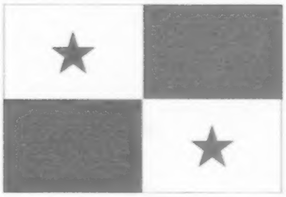


PAKISTAN

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
Economic security and political risks remain elevated. Pressure on FX reserves will continue to intensify with heavy debt repayments coming due in 2014. Risk of a balance of payments crisis remains elevated despite the IMF agreement as implementation will be challenging. Expect payment delays.



PANAMA

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments
Credit quality, capitalization and liquidity levels are comfortable, and it's highly unlikely for the country to abandon dollarization. Although strong growth (7%) will continue, driven by the canal's expansion, recent contract disputes between the government and the project consortium will delay the start of operations until at least early 2016. Presidential elections to take place in May 2014 will not impact pro-investment policies.

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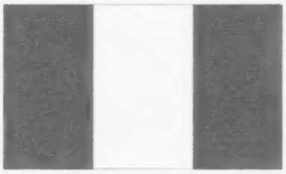
5.1 Experience and Attitude

A B C D E F G H I J K L M N O P Q R S T U V-Z

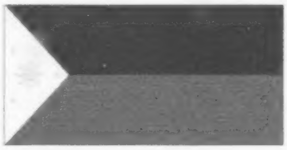


PERU

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments
Despite a deceleration due to a slowdown in China and a slump in metal prices, growth is expected to reach 5.6% this year driven by increased mining production, continued investment and social spending. Ample FX reserves mitigate the economy's vulnerability to commodity price fluctuations. The sol will continue to depreciate as the tapering of US quantitative easing is completed.



PHILIPPINES

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments
As a result of the severe typhoon that hit the Philippines, companies could face some congestion at ports/airports, although core business and manufacturing have not been impacted. Agricultural and tourism sectors in the south central provinces will likely be affected. Access to peso liquidity appears comfortable, and FX reserves remain very robust. Hot money inflows and strong remittance flows are boosting the peso. Outside main cities the business environment can pose challenges: bureaucracy and local-level government capacity issues can cause considerable delays and problems. Corruption is still a challenge for foreign businesses.

POLAND

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments
Despite the challenges of a still-weak economic environment in Europe, GDP growth will accelerate to 2.9% in 2014. Poland will remain one of the fastest-growing countries in Europe, thanks primarily to still-healthy domestic demand.

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5.1 Experience and Attitude

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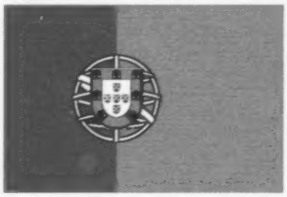
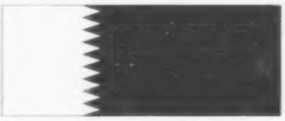


PORTUGAL

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Negative: —

Comments
Portuguese companies are struggling with a weak economy as GDP is expected to grow just 0.5% in 2014, while the credit environment will remain tight because the country's banks are deleveraging and contending with losses from impaired loans.

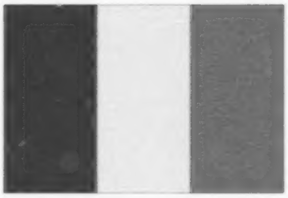


QATAR

Risk Level

Short-term commercial: Low
EDC payment experience 2013: Negative: —

Comments
Growth has slowed compared with double-digit peaks in 2011 and will remain around the 5% mark in 2014. The currency peg to the US dollar is highly likely to be maintained. FX reserves are comfortable (over 9 months' import cover) and the current account is highly likely to remain in surplus. Domestic politics are likely to remain stable. Qatar would experience significant economic disruption if Iran were to block the Strait of Hormuz leading out of the Persian Gulf. However, a strait closure is assessed as a low-probability scenario.



ROMANIA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: ✚

Comments
Economic growth surprised on the upside last year, thanks in part to a bumper agriculture harvest; however, since this boost to exports will not be repeated, growth will slow in 2014. Contracting credit continues to be a drag on the economy; business loans are particularly weak and the outlook remains bleak with the US Fed tapering, ongoing dismal conditions in the Western European bank sector and very weak confidence levels within the country. Caution is advised when dealing with local governments and state-owned enterprises as arrears continue to be a problem with public sector buyers.

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5.1 Experience and Attitude

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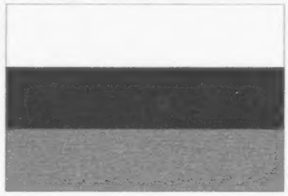
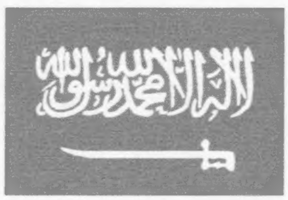


RUSSIA

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments
Economic activity is slowing, constrained by weak external demand and investment spending. Rising inflation and the tapering of US quantitative easing will put downward pressure on the ruble over the near term and the ruble has depreciated by 7% during the first 2 months of 2014. Nevertheless, a transition to a more flexible exchange rate will have a positive impact on macroeconomic stability.

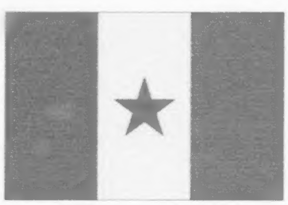


SAUDI ARABIA

Risk Level

Short-term commercial: Low
EDC payment experience 2013: Positive: +

Comments
Due to ample FX reserves, import cover is expected to remain high at 36 months. The currency peg to the US dollar is highly likely to be maintained. Despite increased geopolitical risk, major commercial disruptions are unlikely. The banking sector remains well capitalized. Growth is expected to be around 4% in 2014 due to elevated levels of oil production; however, this has declined substantially from the 8.5% growth recorded in 2011 which was driven primarily by large government spending increases.



SENEGAL

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2013: Negative: −

Comments
Senegal's economy depends on European tourism and primary commodity exports (mostly agricultural products and seafood). Economic growth has been modest in recent years but is expected to approach 5% in 2014. The country is vulnerable to increases in international food and oil prices, which periodically result in spikes in its current account deficit. FX reserves are adequate at just over 3 months of import cover. As a member of the CFA franc zone, Senegal would have access to pooled FX reserves at the regional central bank in case of liquidity pressures.

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5.1 Experience and Attitude

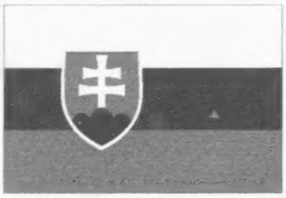
A B C D E F G H I J K L M N O P Q R S T U V-Z

SINGAPORE

Risk Level

Short-term commercial: Low
EDC payment experience 2013: Positive: +

Comments
Singapore is a high-income, competitive, investor-friendly market. As a small and extremely open economy, Singapore remains vulnerable to external shocks, especially a slowdown in demand in key trading partners. However, ample FX reserves provide a sound buffer to absorb most cyclical shocks.

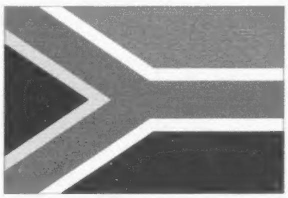


SLOVAKIA

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Negative: −

Comments
NA



SOUTH AFRICA

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments
South Africa's banking sector is healthy and the country has one of the strongest commercial operating environments on the continent. That said, economic and export growth has been sluggish due to the slowdown in Europe, slowing Asian demand, and strike action. The rand has lost 20% of its value since 2012 and its value remains low, reflecting weakened investor sentiment due to the strikes, high labour costs and low growth prospects. GDP growth hovered around 2% in 2013 but is expected to near 3% in 2014.

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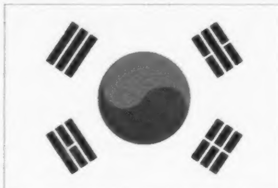
5.1 Experience and Attitude

A B C D E F G H I J K L M N O P Q R S T U V-Z



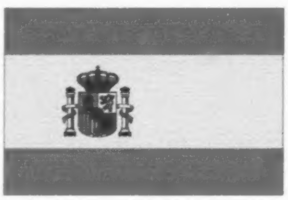
SOUTH KOREA

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments

Despite its reliance on trade, South Korea's economy has shown remarkable resiliency and with the global economy improving, growth prospects for 2014 look quite good. The strengthening won continues to pose challenges for Korean export. Banks are still dependent on short-term external credit, but substantial FX reserves and swap lines with the US, Japan and China provide an adequate buffer. The trade regime is becoming more liberal, yet some trade barriers remain – notably high tariffs for agricultural products. Greater short-term volatility could emerge should tensions escalate with the volatile regime in North Korea.



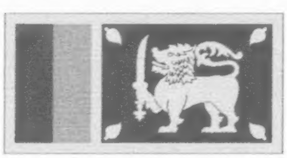
SPAIN

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments

Spain is challenged by a weak economy with GDP forecast to grow by just 0.5% in 2014 after a 1.2% contraction in 2013. Businesses face a tight credit environment as banks have struggled with huge losses from a real estate bubble. Intervention by the European Central Bank has prevented bond yields from rising to unsustainable levels, but markets remain nervous and domestic credit conditions are tight. Payments to exporters abroad continue to be fair.



SRI LANKA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Negative: —

Comments

FX reserves provide adequate import cover. Growth will rebound in 2014 and beyond. The government's fiscal and current account deficits are very large but will be mostly financed by FDI and new medium-long-term borrowing. President Rajapaksa's back-to-back election victories (2005 and 2010) coupled with his focus on the economy after the end of the civil war ensures political stability and policy continuity. So far the population tolerates his autocratic leanings given the strong economic performance. Local companies may have an edge over foreign suppliers in construction.

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5.1 Experience and Attitude

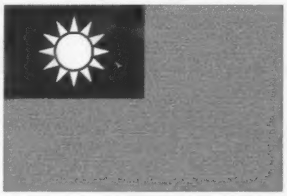
A B C D E F G H I J K L M N O P Q R S T U V-Z

SYRIA

Risk Level

Short-term commercial: Prohibitive
EDC payment experience 2013: Negative: —

Comments
EDC is closed under all programs in view of Government of Canada restrictions and/or current business environment.

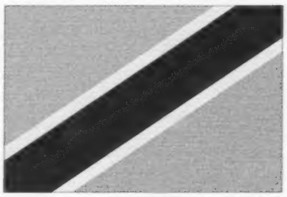


TAIWAN, PROVINCE OF CHINA

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments
NA



TANZANIA

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2013: Positive: +

Comments
Despite ongoing acute power shortages, the economy grew by roughly 7% in 2013, which is well above the regional average. Inflation has moderated and is now in the single digits; however, growing energy needs will put pressure on the current account, FX reserves and potentially the shilling over the short term. The current account deficit (15% of GDP) is under pressure from weaker gold exports, which represent a third of all exports.

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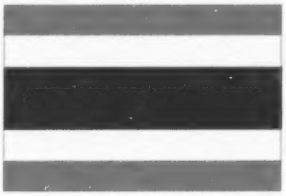
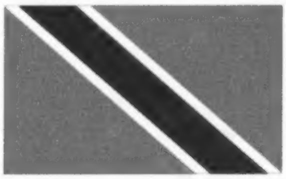


THAILAND

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2013: Positive: +

Comments
Prolonged political instability is taking a toll on growth and the business environment (forecast at roughly 2% of 2014 GDP). With political turbulence set to continue, prospects for domestically oriented companies don't look that great given Thai low consumer confidence levels and elevated consumer debt. Even though export-oriented auto and electronic manufacturing hubs were not directly impacted by unrest, some reports suggest orders are being routed to alternate markets as a precaution. Massive FX reserves and a possible uptick in exports due to US and EU demand will help Thailand avert near-term macro-stresses.

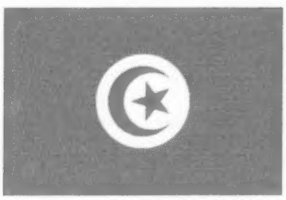


TRINIDAD AND TOBAGO

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments
The rating is driven by high levels of reserves, including the Heritage and Stabilization Fund which significantly diminishes liquidity risk in the short term. Delays in accessing US dollars can lead to payment delays. A downside risk is that the economy remains very reliant on commodity exports and diversification efforts are slow.



TUNISIA

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2013: Positive: +

Comments
FX reserves remain relatively low at 3.5 months of import cover. Economic growth is only slowly recovering from the 2011 contraction that occurred in the wake of the revolution. Growth levels will remain subdued due to trouble in the Eurozone, which is the main destination for Tunisian exports and a source of tourists and remittance flows. Strikes and localized protests, mostly about socio-economic issues and, in some cases, related to constitutional controversies, will continue to occur frequently, sometimes causing brief business disruptions.

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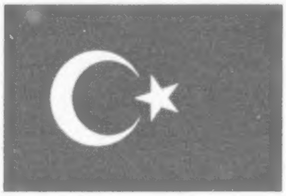
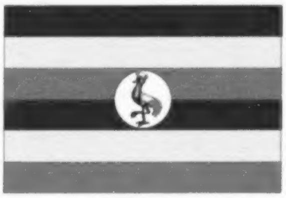


TURKEY

Risk Level

Short-term commercial: Medium
EDC payment experience 2013: Positive: +

Comments
Recent political uncertainity has dampened the appetite for Turkish assets, sending the lira down and forcing the central bank to step in with support. Turkey's large current account deficit and significant short-term external debt are key sources of vulnerability. However, the banking sector is very well regulated, has ample capital ratios and a low ratio of non-performing loans. A weaker lira will affect companies that have significant foreign currency costs and will push up overall domestic inflation.



UGANDA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
Short-term commercial risk is assessed as High. This rating is driven by the country's continued dependence on donors for financial assistance, and the recent strains upon these relations. Fluctuations in the currency and chronic current account deficits place some strain on the economy, particularly given its narrow export base; while the export sector has diversified somewhat, coffee remains the single major export revenue earner. The growth outlook is bright but strong import demand related to the nascent oil industry will keep the current account deep in the red (over 10% of GDP).

UKRAINE

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
Ukraine remains cut off from international bond markets, with yields on short-end government notes in excess of 25%. The country is now reliant on FX reserves (and has been for a while) to service debts. The hryvnia continues to depreciate and further downside risk exists given the heightened political and economic risk environment. A weaker UAH is going to impact foreign debt repayment ability. The banking sector is fragile – non-performing loans are already at 40%.

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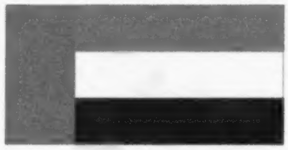
A B C D E F G H I J K L M N O P Q R S T U V-Z



UNITED ARAB EMIRATES

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

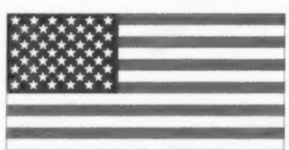
Comments
Growth has recovered since the Dubai debt crisis triggered by the global trade slowdown. Real GDP growth is forecast to be 3.9% in 2014, down slightly from the estimated 4.0% growth in 2013. The country is highly likely to maintain a current account surplus and FX reserves, while low at between 2 and 3 months, are adequate. Some state-owned corporations in Dubai continue to face refinancing risk. However, recent experience suggests that the Dubai government will prevent defaults by negotiating debt restructurings that repay bondholders in full but are borne by the local banking sector.

UNITED KINGDOM

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments
The British economy is picking up with GDP forecast to grow by 2.5% in 2014 after 1.5% growth in 2013. Businesses face a tight credit environment as banks continue to deleverage. Payments to exporters abroad continue to be good.



UNITED STATES

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Positive: +

Comments
The US private sector is in great shape with corporate profitability at an all-time high, and record amounts of cash; however, American business remains cautious about investment and hiring due to uncertainty and the still-fragile recovery. The housing sector is rebounding and access to credit is good, even for small business. The key risks to the outlook are cutbacks in the government sector which have a dampening effect on growth.

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EDC Payment Experience: Measured by the number and size of EDC claims experienced in a particular country over a period of a year relative to EDC's business volume growth.

+

Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

O

Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

—

Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

5.1 Experience and Attitude

A B C D E F G H I J K L M N O P Q R S T U V-Z

URUGUAY

Risk Level

Short-term commercial: Low-Medium
EDC payment experience 2013: Negative: —

Comments
A high level of dollarization leaves the country vulnerable to downward pressures on the exchange rate. In addition, many private sector buyers are exposed to Argentine risk (tourism, real estate, leather and apparel), albeit to an increasingly lesser extent. Nonetheless, these risks are mitigated by strong bank supervision and high levels of international reserves (11 months of imports). There are currently no transfer and convertibility controls in place and the capital account is open.

UZBEKISTAN

Risk Level

Short-term commercial: High
EDC payment experience 2013: Insufficient Data

Comments
NA

VENEZUELA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
The rating is driven by the existence of strict controls on the convertibility and transfer of hard currency for payment of imports. Currently, there are multiple FX systems with differing exchange rates, making access to foreign currency highly cumbersome and slow. Payment delays have worsened and problems caused by poor port infrastructure may affect shipments, especially in the food sector. Even with the veiled devaluation in early 2014, currency pressures are expected to persist.

EDC Payment Experience
Measured by the number and size of EDC claims experienced in a particular country over a period of a year, relative to EDC's business volume growth.

+
Positive: The number of claims or the amounts claimed have decreased in proportion to EDC business volume growth.

O
Neutral: The number of claims or the amounts claimed have remained unchanged in proportion to EDC business volume growth.

—
Negative: The number of claims or the amounts claimed have increased in proportion to EDC business volume growth.

5.1 Experience and Attitude

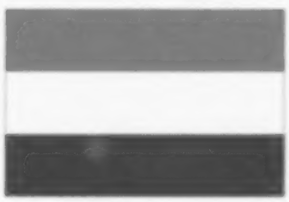
A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V-Z

VIETNAM

Risk Level

Short-term commercial: Medium-High
EDC payment experience 2013: Positive: +

Comments
Economic activity remains subdued given banking/financial sector weaknesses and tight credit conditions. Business failure rates still remain high. Inflationary pressures eased, but the recent round of easing could re-kindle expectations. FX reserves have improved though they still provide inadequate import cover. Vietnam remains vulnerable to domestic and external economic shocks; a drop in FDI can pose a significant FX crunch and lead to increased payment delays.



YEMEN

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
The country is still experiencing a difficult transition toward democracy.
Crude oil and local refined petroleum production continue to be depressed due to pipeline outages caused by terrorist and tribal attacks. Pressure on the riyal will continue, due to the projected current account deficit. Economic growth is forecast to be well below potential at just over 3% in 2014. Support from Saudi Arabia and other donors will help to offset the trade deficit, preventing a disorderly devaluation and supporting current government spending.

ZAMBIA

Risk Level

Short-term commercial: High
EDC payment experience 2013: Positive: +

Comments
The country's heavy reliance on copper exports (70% of export earnings) leaves it vulnerable to a price correction. Significant challenges in the operating environment, including strained infrastructure, also contribute to the short-term risk profile. Lingering fiscal and current account deficits (7% and 4% of GDP, respectively) are of concern. In spite of strong investor appetite for Zambian risk and continued FDI inflows, FX reserves dropped in recent years and the kwacha has been plummeting in 2014 – increasing short-term risks.

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5.2 Payment Risk Maps
Short-term payment risk

Latin America

- Prohibited
- High
- Medium-High
- Medium
- Low-Medium
- Low
- No Information

* Special restrictions may apply

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5.2 Payment Risk Maps

Short-term payment risk

Caribbean

Prohibited
High
Medium-High
Medium
Low-Medium
Low
No Information

* Special restrictions may apply

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5.2 Payment Risk Maps

Short-term payment risk

Asia/Pacific

* Special restrictions may apply

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5.2 Payment Risk Maps

Short-term payment risk

Central Europe

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5.2 Payment Risk Maps

Short-term payment risk

Western Europe

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5.2 Payment Risk Maps

Short-term payment risk

Former Soviet Union

- Prohibited
- High
- Medium-High
- Medium
- Low-Medium
- Low
- No Information

* Special restrictions may apply

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5.2 Payment Risk Maps

Short-term payment risk

Africa

Prohibited

High

Medium-High

Medium

Low-Medium

Low

No Information

* Special restrictions may apply

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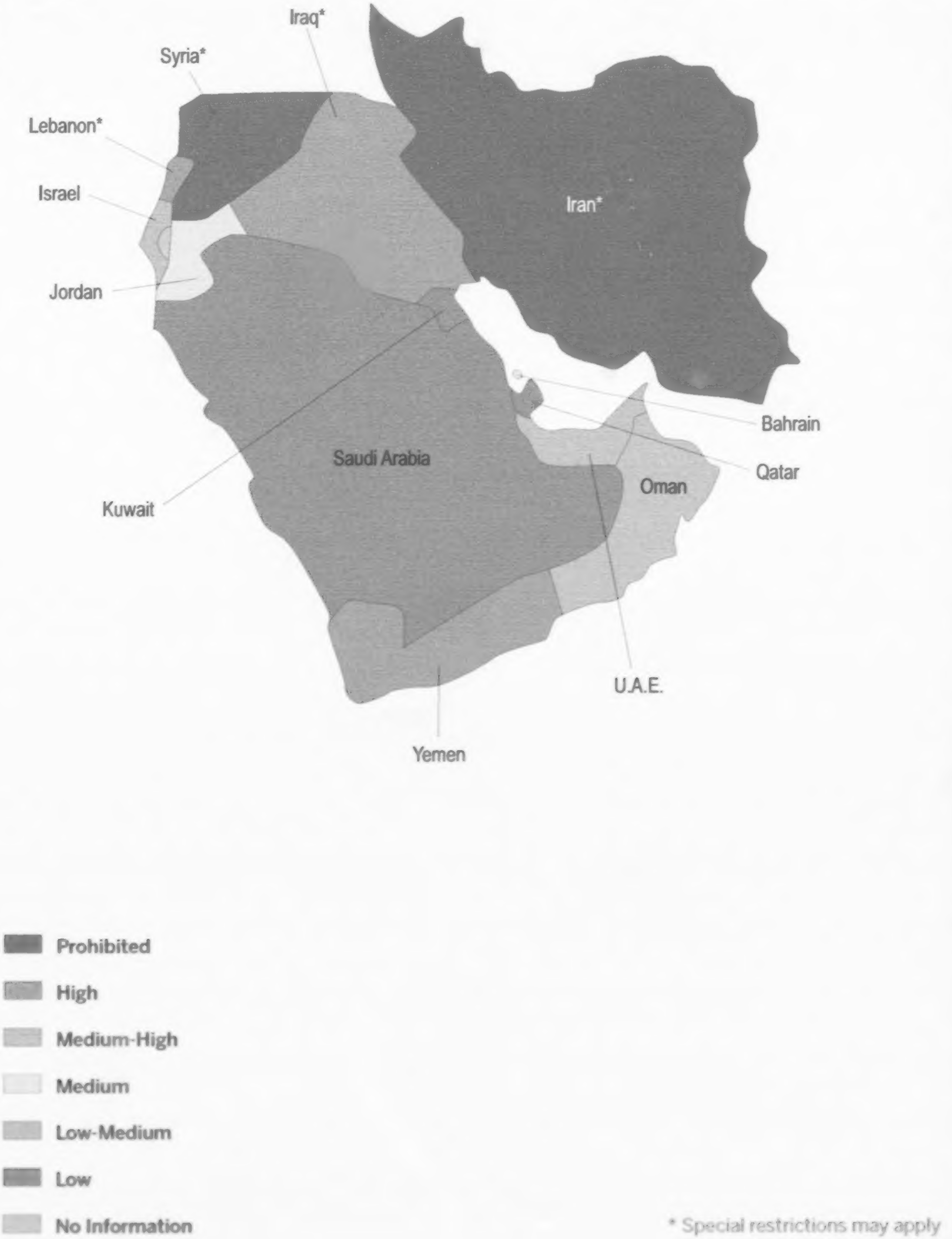
5.2 Payment Risk Maps

Short-term payment risk

Middle East



* Special restrictions may apply

5.2 Payment Risk Maps

Medium and long-term payment risk

Latin America

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5.2 Payment Risk Maps

Medium and long-term payment risk

Caribbean

Prohibited
High
Medium-High
Medium
Low-Medium
Low
No Information

* Special restrictions may apply

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5.2 Payment Risk Maps

Medium and long-term payment risk

Asia/Pacific

* Special restrictions may apply

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5.2 Payment Risk Maps

Medium and long-term payment risk

Central Europe

5.2 Payment Risk Maps

Medium and long-term payment risk

Western Europe

5.2 Payment Risk Maps

Medium and long-term payment risk

Former Soviet Union

- Prohibited
- High
- Medium-High
- Medium
- Low-Medium
- Low
- No Information

* Special restrictions may apply

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5.2 Payment Risk Maps

Medium and long-term payment risk

African

- Prohibited
- High
- Medium-High
- Medium
- Low-Medium
- Low
- No Information

* Special restrictions may apply

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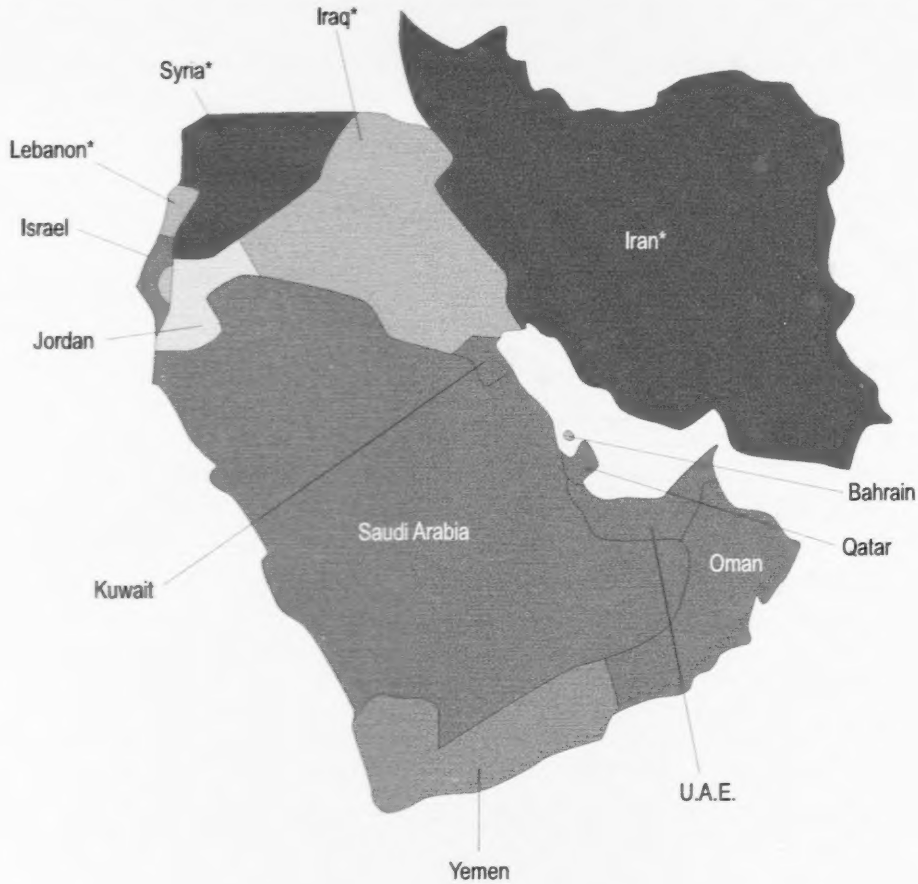
5.2 Payment Risk Maps

Medium and long-term payment risk

Middle East



- Prohibited
- High
- Medium-High
- Medium
- Low-Medium
- Low
- No Information

* Special restrictions may apply

OTHER REPORTS PUBLISHED BY EDC ECONOMICS

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Export Performance Monitor

The Export Performance Monitor is a monthly publication which tracks recent movements in Canadian exports by industry and geographic market. The monitor also assesses EDC's main export forecast, which is produced twice yearly.

Commodity Tracker

The Commodity Tracker is a weekly table of commodity prices and economic indicators related to activity in the commodity markets that are most relevant to Canadian exporters.

Weekly Commentary by Peter G. Hall

Short, intuitive insights into this week's hot economic issues.

Country Snapshots

- US Country Overview
- Japan Country Overview
- Euro Area Overview
- Brazil Country Overview
- Mexico Country Overview
- China Country Overview
- India Country Overview
- Russia Country Overview
- South Africa Country Overview

This assessment is valid at date of issue but always subject to review.
Please contact the **EDC Economics Division** for current position.

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